



THE EVOLUTION AND CRITICO-ANALYTICAL SIGNIFICANCE  
OF KARL MARX'S THEORY OF SURPLUS VALUE PRIOR TO  
*CAPITAL*.

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of Economics, University of Newcastle, N.S.W., Australia,  
October 1977. 427.
- "Aspects of Marx's *Grundrisse* as Intellectual Foundations for a  
Major Theme of *Capital*", *History of Political Economy*, 11:2,  
Summer 1979. 497.

## PRIMARY SOURCES ABBREVIATIONS.

Primary Collections and Works will be cited in the course of the study by the abbreviations shown below.

- MEGA*: *Historisch-Kritische Gesamtausgabe*, Section I, seven volumes, eds. D. Ryazonov and V. Adoratskij, (Verlag Detlev Auvermann, 1970).
- MEW*: *Werke*, 42 volumes, (Dietz, Verlag, Berlin, 1961-71).
- MECW*: *Collected Works*, 50 volumes forthcoming (Lawrence and Wishart, London, 1975 - ).
- MEC*: *Selected Correspondence*, (Foreign Languages Publishing House, Moscow, n.d.).
- G(EV)*: *Grundrisse der Kritik der Politischen Oekonomie*, (Europäische Verlagsanstalt, Frankfurt, n.d.).
- G*: *Grundrisse: Foundations of the Critique of Political Economy (Rough Draft)*, ed. and trans. M. Nicolaus, (Allen Lane, London, 1973).
- CPE*: *A Contribution to the Critique of Political Economy*, ed. M. Dobb, trans. S. Ryazanskaya, (Lawrence and Wishart, London, 1971).
- TSV*: *Theories of Surplus Value*, three parts, ed. S. Ryazanskaya, trans. E. Burns, (Progress Publishers, Moscow, 1963-71).

K: *Capital: A Critique of Political Economy*, three volumes,  
(Progress Publishers, Moscow, 1971).

NOTE: *All emphasis in quotations is Marx's unless otherwise stated.*



## SUMMARY

In this study, we trace the evolution of Karl Marx's theory of surplus value and its application in his analysis of the essential nature and "laws of motion" of the capitalist system.

An integral part of this evolutionary process was Marx's sustained critique of antecedent political economy. In this critique, the theory of surplus value played a crucial role as the most fundamental category of the alternative paradigm from which Marx worked.

The two key sources for our study are Marx's 1857-58 *Grundrisse* manuscript and the part of the 1861-63 "Critique of Political Economy" manuscript published as *Theories of Surplus Value*. Our approach is to work through these manuscripts in order to provide a detailed textual-exegetical analysis of Marx's evolving thought on the political economy of capitalism.

Our study is divided into four Parts. Part I provides a prologue to the main text. In it, we review Marx's intellectual background, including his early contacts with political economy. The prologue also contains an analysis of Marx's many plans for his "Economics". This analysis sets his developing political economy in its methodological and bibliographical context.

In Part II, we consider the *Grundrisse* in detail and expose the core of analysis that it contains. It was in this work that Marx drafted his initial methodological and substantive thoughts on his alternative understanding of capitalism. In so doing, he introduced several new and revised categories into political economy, including labour power, surplus value, and constant and variable capital. These categories made a profound difference to the portrayal of the essential

nature of capitalism relative to that found in received political economy, especially with respect to the capital-labour relationship, the nature and role of the labour theory of value, the articulation between value and distribution, and the several dimensions of the "laws of motion".

The *Grundrisse* is not without its limitations, though, and our study documents these. Especially was the value-price-distribution articulation issue constricted by Marx's "capital-in-general" approach and the category price-of-production did not appear in the work. Moreover, in the *Grundrisse*, the treatment of the "laws of motion" was impressionistic, although as our study shows, many of the dimensions of "motion" that would be developed later were adumbrated therein.

*Theories of Surplus Value* involved Marx in a sustained critique of antecedent political economy. In the *Grundrisse*, the role of such critique was minimal. Part III of our study shows how this critique was facilitated by the alternative paradigm formulated in the *Grundrisse*, with special reference to the application of the theory of surplus value.

It was the Physiocrats who, in Marx's view, provided the essential origins of the political economy of capitalism. Several ideas crucial to Marx's analyses emerged in their work, including the generation of the economic surplus in production, the role of capital in production, and the structural requirements for reproduction through circulation. The last of these ideas was neglected by later writers, but the other two Marx found to be fundamental in the work of Adam Smith and David Ricardo, the two main antecedents upon whom Marx focussed his critical attention. Marx's critique of writers after Ricardo generally served to reinforce his view that Ricardo's *Principles* represented the apogee of Classical political economy.

We go on to show how, through this critique, Marx was able to raise

the level of sophistication of his analyses relative to the *Grundrisse*. Indeed we are able to document that the essential content of Marx's revised paradigm of the political economy of capitalism, as found in the "final" draftings for *Capital*, was present in *Theories of Surplus Value*.

Part IV is an epilogue to the study and draws together the features of Marx's political economy prior to *Capital*.

STATEMENT OF ORIGINALITY.

I, Allen Oakley, hereby certify that this Thesis:

- (1) contains no material that has been accepted for the award of any other degree or diploma in any university, and
- (2) contains no material previously published or written by another person, except where due reference is made in the text

Allen Oakley

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Responsibility for the work, though, remains mine alone.

**PART 1**

**PROLOGUE.**

## CHAPTER 1



### INTRODUCTION

#### 1.1 THE PRESENT STUDY

This is a study in intellectual history. Its theme is the evolution in one man's thought of an idea designed to explain observed phenomena.

Karl Marx studied at great length the received explanations of the distribution of incomes generated in production between class groups in the capitalist economy. He found these explanations, to varying degrees, superficial. They lacked analytical penetration and consequently failed adequately to reflect the *essential* contradiction ridden nature of capitalism and its form of distribution. These explanations also did not reveal the dynamics of change which capitalism would experience through time as a result of its contradictions.

Empirically it was clear to Marx that much of the produced value was appropriated by property owners, the capitalists who owned the produced means of production and the landowners who provided land and other natural resources. The *per capita* share of real income accruing to the members of these classes was extreme relative to that enjoyed by the working class members. Moreover, Marx had observed the unstable nature of capitalist economic activity and this, he felt, forewarned of an inevitable worsening of the workers' social and economic plight.

Labour, Marx argued, was the driving force of production and the origin of all exchange value and the economic surplus. How was it, then, that labour's *per capita* share of the value produced was so miserable?

Political economy had failed satisfactorily to answer this question. There existed, in Marx's view, no adequate explanation of income derived from non-labour involvement in production. His theory of surplus value was to be the foundation for an alternative paradigm of political economy which would provide explanations of the essential nature of the capitalist distribution process and the role of this process in the crisis prone "laws of motion" of the capitalist economy.

In a letter to Friedrich Engels dated 24 August 1867, Marx wrote of what he considered to be the two most significant achievements in his *magnum opus*, *Capital: A Critique of Political Economy*:

The best things in my book are 1. (on which *all* understanding of the facts is based) the *twofold character of labour*, emphasised in the very first chapter, expressed, as it is, in use value or exchange value; 2. the treatment of *surplus value independent of its particular forms*, like profit, interest, ground rent etc. This is shown in the second volume [which was to contain Books II and III at this stage] in particular. (MEW, 31, 326)

These two facets of Marx's work were highly interdependent, the first being the essential basis for the formulation of the second, the theory of surplus value. This theory then became the centrepiece of all Marx's political economy.

As recent research has emphasised, the *principle* upon which Marx's theory of surplus value was based had been present in political economy since the middle of the eighteenth century. It emerged in the work of the Physiocrats, was apparent in Adam Smith's *Wealth of Nations* and reached its highest point of evolution prior to Marx in Ricardo's *Principles*. This line of thought about the surplus has been explicated by Maurice Dobb, Pierangelo Garegnani and Krishna Bharadwaj<sup>1</sup>, their general objective being to emphasise the change that the theory of value and distribution underwent in the 1870s when the supply and demand approach became dominant. Krishna Bharadwaj summarises the themes which pervaded political economy prior to the 1870s in the following terms:

The central question that challenged most speculative minds was:  
On what does the general progress and wealth of a nation depend?



The generally acceptable answer was: the 'surplus' that is available to it. The notion of surplus thus constituted the basic idea around which theorizing set about. The major questions were: (a) what does this surplus consist of and what determines its size? (b) where does it originate? (c) among whom is it distributed? (d) how, i.e. by what principles, is it distributed? (e) what determines its growth over time? (f) what happens to the relative shares of surplus accruing to the different classes of appropriators as the size of the surplus increases?<sup>2</sup>

It was Marx that first exposed these themes in political economy from the Physiocrats onwards, his critical stance being that the potential that they held for a comprehension of capitalism was never fully realised. Indeed, the analysis involved served to generate a fallacious portrayal of capitalism as an harmonious and essentially stable system.

The essential principles involved in the surplus based theories of distribution and value are outlined by Pieroangelo Garegnani<sup>3</sup>. The *origin* of the surplus is the production process. What emerges from production is the aggregate social product. Crucial to the production of this social product is the input of labour. The vital role of labour involves a capacity embodied in a person whose life must be sustained in order to preserve that capacity. This need for sustenance directly links production to a form of distribution based on social classes. The difference between social product and the product required for the reproduction of the labour capacity becomes the surplus expropriated by the owners of the means of production.

Two components are crucial in determining the size of the surplus: first, the real wage comprising essentially the commodities required (biologically and socio-historically) for the ongoing reproduction of the labour capacity, and, secondly, the social product, i.e. the aggregate periodic production of commodities. It follows that in order to find the surplus as a *residual* base for non-wage incomes, the real wage has to be determined prior to and independently of the non-wage share. The basis for this independent determination is the "subsistence" of labour in

historical context. The social product is the outcome of production. Its size depends upon the stage of capital accumulation reached, upon which the relative employment of labour is based, along with the technology in use and the productivity of that labour.

The principle of the surplus is complicated by the need for a means of measuring the heterogeneous quantities involved. It is *value* which provides this means, although not without some analytical ambiguity.

Our study is concerned with the particular formulation of this view of distribution and its associated value requirement posited by Marx and the implications which he drew from the analyses for the comprehension of the "motion" of capitalism through time. We focus especially upon Marx's analysis of the critical origins of his formulations and their historical setting.

The general theme of our study is indicated by Paul Sweezy in the following passage:

I have long been greatly impressed by the fact that Karl Marx, though using a conceptual framework derived from and in many ways very similar to classical economic theory, nevertheless reached conclusions radically different from those of the classical economists.<sup>4</sup>

It is our intention to provide an elaboration of this notion of Sweezy's by tracing the evolution of Marx's "conceptual framework" for political economy. In doing this, we shall emphasise the central role played by the theory of surplus value and its application to a sustained critique of classical theory. It was through this critique of political economy that Marx reinforced and formalised his ideas about the essential nature of the capitalist economy and its "motion" through time, setting his analysis at all times in the context of social relations broadly considered. Trent Schroyer cogently summarises this general view of Marx's political economy and its relationship to classical theory as follows:

... Marx's critique of political economy proceeded to reflexively

reconstruct [*sic*] the fundamental societal components (and economic categories) and their dynamic relations as an analytic framework for the systematic analysis of capitalism. By reuniting within a critical theory of the social totality the processes that classical political economists had separated and by comprehending the economic categories as referring to the historically emergent social forms of value, commodity, money, etc., Marx created a new type of theory. The impossibility of treating Marx as just another political economist could be illustrated by pointing to the difference between the economic categories, which always must be related to the genesis of economic social forms, and the logical categories which make the critical comprehension of economic categories possible, e.g., quantity, quality, essence, appearance.<sup>5</sup>

It will become clear as we proceed that the logical categories mentioned in this passage were crucial in the formulation of Marx's political economy.

By way of detailed textual exegesis of the relevant original texts, we aim to present Marx's developing theses as he himself saw them. The use of quotations with careful attention to context, especially in a chronological sense, are an essential means of achieving this objective. The categories used are those of Marx and the form of analysis presented is largely confined to the scope of techniques that he was inclined to use. To use more sophisticated analyses, we argue, would impede comprehension of his evolving thought. It is our view that historical relativism is an important basis for intellectual history.

Our interpretation of what *Marx* achieved analytically is presented and documented in the study which follows. We take a critical stance only where Marx's own critique was unfounded and where previous secondary interpretations differ significantly from our own. It is not our intention to "put Marx right". His thought and its evolution are presented in their original, rough-hewn form. Nor is it our intention to reconcile the multitude of interpretations of Marx's political economy that are extant. Our interpretations are our own and only a small role for intellectual disputation is allowed in the study. Where secondary literature is discussed, it is generally in order to provide a backdrop for our work in which we add to the existing interpretations the often

neglected critico-historical origins and evolution of Marx's analyses.

While dealing with this aspect of our study, one piece of secondary literature warrants a special mention. Angus Walker has presented a remarkable set of *obiter dicta* in which the interpretations pertinent to our theme are representative of the sort that we do hope our work will help to eradicate, wherever they may appear.

It is a commonplace of Marxist exegetics that Marx was a classical economist.

...

It is curious that Marx himself appears never to have given much thought to the nature and methodology of the discipline of which he was to become an exponent.

...

His [Marx's] appraisal of Political Economy was historical, not analytical.

...

For not only did Marx accept the validity of Political Economy as expounded by Smith and Ricardo ....

...

Marx would not have been unhappy to know that he was to be thought of as the last great classical economist.

...

Marx found most of his economic problems, not in the real world, but in the teachings of the British classical economists.

...

The "transformation problem" posed by the labour theory of value is solved by Marx in strictly Ricardian terms ....<sup>6</sup>

One constraint to which our study is subject should be mentioned before we proceed. It is that we use only source materials in English translations. Two consequences of this constraint should be noted. First, some source materials have not been included in formulating our interpretations. Fortunately, this aspect of the constraint is not especially serious, for all of the source materials which contain the core of Marx's political economy, and which are *generally available*, have been translated. Secondly, the translations used have been taken to be "correct" except where writers have subsequently pointed out changes which are reasoned to improve the interpretation of Marx's argument.

There have been very few such changes suggested, so again this aspect of the constraint is not likely to lead to any substantive distortions in our work.

## 1.2 MARX'S INTELLECTUAL BACKGROUND<sup>7</sup>

Marx began reading political economy in 1844 while in Paris. By this time, he had behind him a complex background of intellectual influences which helped to shape the evolution of his thought in political economy. He had been influenced by his mentors and contemporaries and he had independently studied law and philosophy in some detail. His *critical* assessments of the latter were to become methodologically very important in his work on political economy.

In addition to these intellectual influences, Marx had been able to observe and write critical commentaries on the social, political and economic realities of the German States during his 1842-43 sojourn as a journalist.<sup>8</sup> Marx recalled in 1859 that his contacts with 'material issues during this period had induced him to study political economy.

In the year 1842-43, as editor of the *Rheinische Zeitung*, I first found myself in the embarrassing position of having to discuss what is known as material interests. The deliberations of the Rhenish *Landtag* [Parliament] on forest thefts and the division of landed property; the official polemic started by Herr von Schaper ... against the *Rheinische Zeitung* about the condition of the Moselle peasantry, and finally the debates on free trade and protective tariffs caused me in the first instance to turn my attention to economic questions. (*CPE*, 19-20).

Prior to 1844, Marx had studied post-Aristotelean Greek philosophy in depth while preparing his doctoral thesis.<sup>9</sup> More significantly for our theme, he had also begun to grapple with the mysteries of Hegel's works. His contacts with the "Young Hegelian" critics of Hegel and his own critique of the philosophy<sup>10</sup> were to have a lasting influence upon his method as it affected political economy. Joseph O'Malley has

summarised Marx's early critique of Hegel in this way:

... it was Marx's first effort to expose and criticise Hegel's philosophy in general and his political philosophy in particular; and through this effort both to criticise existing political institutions and, with the help of research in political theory and history, to clarify the relationship between political and economic aspects of society.<sup>11</sup>

Beyond 1844, the critique of Hegel was fortified by the work of Ludwig Feuerbach. Marx found Feuerbach's reinstatement of man as the hub of philosophy in accord with his own thought. He wrote that "it is only with *Feuerbach* that *positive*, humanistic and naturalistic criticism begins" (*CW*, 3, 232). In Marx's thought, the Idealism of Hegel was converted to a "Dialectical Materialism" in which historical change was the consequence of immanent contradictions that existed in the economic base of any particular stage in the evolution of human society.<sup>12</sup>

In 1859, Marx wrote of these methodological beginnings:

The general conclusion at which I arrived and which, once reached, became the guiding principle of my studies can be summarised as follows. In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the general process of social, political and intellectual life. ... At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production .... From forms of development of the productive forces these relations turn into their fetters. Then begins an era of social revolution. The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure. (*CPE*, pp.20-21).

It was Marx's view that economic relations were at the root of understanding the dynamics of society. His life-long concern to reformulate the political economy of capitalism stemmed from this view.

Marx's first real contact with political economy was his reading of an article by the young Engels called "outlines of a Critique of Political Economy."<sup>13</sup> Marx was impressed with the approach and substance of Engels' work and he referred to it in 1859 as a "brilliant essay on

the critique of economic categories" (*CPE*, 22). We have argued elsewhere that it was this reading which acted as a catalyst in Marx's first study of political economy.<sup>14</sup>

Marx's first studies in political economy in 1844 resulted in some notebook transcription of passages from and commentary upon the work of many British and Continental writers.<sup>15</sup> The studies continued throughout most of 1844 and included the rough drafting of the *Economic and Philosophic Manuscripts*.<sup>16</sup> In these manuscripts, Marx examined the premises of political economy as a reflection of the operations of capitalism, especially with regard to the production and distribution processes. He proceeded then to establish the status of man in this economic regime and found him alienated from his own economic activity and its products. Such was this alienation that it left man less than completely fulfilled *vis-a-vis* his potential as a human being. At the root of this alienation was private property in the means of production. To survive, man was forced by his propertyless status to sell his labour. For the working class there was no alternative. Marx concluded:

On the basis of political economy itself, in its own words, we have shown that the worker sinks to the level of a commodity and becomes indeed the most wretched of commodities; that the wretchedness of the worker is in inverse proportion to the power and magnitude of his production .... (*CW*, 3, 270)

In these early studies of political economy, Marx's purpose was to use its own terms to portray the nature of capitalism and its effect on the bulk of people. At that stage, he was not undertaking an *analytical critique* of political economy itself. What he was critical of was what it stood for. However, it was not long before Marx recognised the significant role of political economy as a theory of capitalist society and the basis for explaining its immanent contradictions. He saw the public presentation and comprehension of an adequate theory of capitalism as a necessary precondition for social revolution and his reformulation

of political economy had this as its most fundamental rationale.

Some degree of critical reformulation was evident in two works of 1847. In the *Poverty of Philosophy* (CW, 6, 105ff) Marx was concerned to reveal the inadequacies of Pierre-Joseph Proudhon's critique of capitalism.<sup>17</sup> Marx's argument showed a more profound awareness of the importance of political economy *per se* in this book, although the tenor was basically polemical. The set of articles known as "Wage-Labor and Capital" was based on a series of lectures given by Marx to the German Workers' Society in December 1847.<sup>18</sup> In the lectures, Marx presented to the workers a theoretical outline of how capitalism worked to their detriment. The theme of exploitation was prominent in formulating the relationship between capital and labour and Marx showed some awareness that the value of labour to the capitalist exceeded the value received by the worker (CW, 9, 218). This principle was later to be developed into the theory of surplus value.

In all of the writings on political economy that we have considered in this section, Marx was firmly locked into the categories of received political economy. His critical stance was developing, but he did not transcend the Classical paradigm which he had absorbed in his studies. It was in the *Grundrisse* manuscripts of 1857-58<sup>19</sup> that Marx, on the basis of his theory of surplus value really began reformulating the paradigm of political economy. This new paradigm was such, he argued, as to reveal the *essential* nature of capitalism. For this reason, our study proper begins in Chapter 3 with this work.

### 1.3 THE METHODOLOGICAL RATIONALE FOR MARX'S CRITICAL REFORMULATION OF POLITICAL ECONOMY.

The predominant mode of development of Marx's thought in political



economy was critique. In spite of his general rejection of the premises and analyses of received political economy, Marx devoted a prodigious amount of time and effort to absorbing its content. The comprehension that he gained provided the basis for his critique which led to the generation of his own theories.

For Marx, critique had a special sense. While the destruction of false notions was intended, intellectual advances unashamedly involved the preservation and extension of received ideas considered to be soundly based. Thus it was that Marx's critique of political economy had both negative and positive components. Ian Steedman expresses the idea in this way: "The term 'critique' is ... used [by Marx] ... *not* in the sense of totally negative dismissive criticism but rather to mean criticism leading to a new theory embodying the strengths of the old but shedding its weaknesses."<sup>20</sup> In subsequent chapters, we will show Marx's use of critique in formulating his ideas. The present section is devoted to a general outline of Marx's rationale for rejecting received political economy, especially its core component, the theory of distribution.

In a passage of notebook XV of the 1861-63 "Critique of Political Economy" manuscripts, <sup>21</sup> Marx commented upon the state of this theory.

The form of revenue and the sources of revenue are the *most fetishistic* expression of the relations of capitalist production. It is their form of existence as it appears on the surface, divorced from the hidden connections and the intermediate connecting links. Thus the *land* becomes the source of *rent*, *capital* the source of *profit*, and *labour* the source of *wages*. The distorted form in which the real inversion is expressed is naturally reproduced in the views of the agents of this mode of production. (TSV, III, 453).

The "agents of this mode of production" were the political economists. Their presentation of revenues (or income forms) as *generated* by the physical phenomena with which these revenues were *apparently* associated provided a wholly inadequate understanding of the capitalist distribution

process. Such analysis implied a harmony of value sharing by the participants in the production process. In this sharing out process, all participants were equal in status. Marx argued that this view was distorted and failed to present the *essential* nature of the process. The source of this distortion was the basing of interpretation and analysis on *appearances* alone. Marx's objection to this methodological approach to analysis was fundamental and represented the *raison d'etre* of his critical reformulation of the paradigm of political economy.

The political economists, were, however, classified by Marx as either Classical or Vulgar in their analysis of the distribution process. Not all political economists were deceived entirely by the appearances. In 1865, Marx wrote of this classification in the main draft for *Capital*, Book III. The subject was the "trinity" formulation of distribution which linked income *generation* to the inputs to production as the price of their services. This mode of distribution appeared in political economy as the linked category set comprising capital-profit, land-rent and labour wages.

It is the great merit of classical economy to have destroyed this false appearance and illusion, this mutual independence and ossification of the various social elements of wealth, this personification of things and conversion of production relations into entities, this religion of everyday life .... Nevertheless even the best spokesmen of classical economy remain more or less in the grip of the world of illusion which their criticism had dissolved, as cannot be otherwise from a bourgeois standpoint, and thus they fall more or less into inconsistencies, half-truths and unsolved contradictions. On the other hand ... vulgar economy, which is no more than a didactic, more or less dogmatic, translation of everyday conceptions of the actual agents of production, and which arranges them in a certain rational order, should see precisely in this trinity, which is devoid of all inner connection, the natural and indubitable lofty basis for its shallow pompousness. This formula simultaneously corresponds to the interests of the ruling classes by proclaiming the physical necessity and eternal justification of their sources of revenue and elevating them to dogma. (K, III, 830)

The basis for this division of the political economists was argued to be their handling of non-labour incomes. The Classics (most especially

the Physiocrats, Adam Smith and David Ricardo: *TSV*, III, 453) had *attempted* to grasp the inner connections of the phenomena. Both rent and interest had been related to a common revenue called profit in the case of Smith and Ricardo. Each of these writers had only just fallen short of recognising that *essential* non-labour income which Marx called surplus value.<sup>22</sup> The Vulgar group had not. As apologists for the system they were confined to the world of appearances and presented distribution as an harmonious and natural process.<sup>23</sup>

Now the methodological and epistemological implications of Marx's rejection of the received theory of distribution are clearly formulated by Georg Lukacs. He argues that empirical "facts" only take on their full import when placed in a framework of analysis and that the selection of "facts" implies some theoretical stance. What was required of Marx was that he provide the appropriate analytical framework within which the true meaning and origin of the "facts" of distribution could be comprehended. As Lukacs put it, "we need the dialectical method to puncture the social illusion ... and help us to glimpse the reality underlying it." He went on:

If the facts are to be understood, this distinction between their real existence and their inner core must be grasped clearly and precisely .... Thus we must detach the phenomena from the form in which they are immediately given and discover the intervening links which connect them to their core, their essence. In so doing, we shall arrive at an understanding of their apparent form ....<sup>24</sup>

Marx used his theory of surplus value in this way. It provided an essence distilled from observed reality which he linked to his understanding of the phenomena of that reality.

While surplus value was most obviously a category of distribution, Marx was able to apply it to the comprehension of the essential nature of other capitalist phenomena. In subsequent chapters of our study, we show how the theory of surplus value enabled Marx to develop analyses of the

articulation of value and price, of the generation of a general rate of profits, of the nature of capitalist reproduction, of the potential impediments to that reproduction, of the nature of capital accumulation and its effects, *inter alia*, on the rate of profits and the economic status of workers, and of the short-run and long-run, secular crises to which, in Marx's view, capitalism was prone. Our brief is to trace the evolution of these analyses to their stage of development prior to the "final" drafting of *Capital*.

#### 1.4 PREVIOUS STUDIES OF THE THEME.

There are two main components of our study which we consider contribute to the developing comprehension of Marx's work in political economy. First, we provide an analysis of the core themes of the *Grundrisse* manuscripts as foundations for the writing of *Capital*. Secondly, our study of the "Theories of surplus value" part of the 1861-63 manuscripts reveals the critico-historical basis for the development of the *Grundrisse* themes into their form immediately prior to *Capital*.

There exists no comprehensive study of these themes which provides the detail found in our work below. There are, though, three books which deal with the evolution of Marx's political economy and some comments upon them will serve to emphasise the need for our study.

Vitali Vygodski's book *The Story of a Great Discovery: How Karl Marx Wrote "Capital"*<sup>25</sup> was first published in German in 1967. In that year also, Ernest Mandel published in French *The Formation of the Economic Thought of Karl Marx 1843 to "Capital"*.<sup>26</sup> One year later, Roman Rosdolsky's massive study *The Making of Marx's 'Capital'* appeared in German.<sup>27</sup> Each of these has recently been translated into English.

These three works parallel our study to varying degrees. However, each falls short of the sort of evolutionary study that we consider would facilitate a more complete understanding of the development and critico-historical origins of Marx's political economy. The present study is an extension of the work already done by these writers.

More specifically, the books by Vygodski and Mandel lack the textual-exegetical detail that we have used to clarify some of the complexities involved in the formation of Marx's political economy. Vygodski's book is rather brief, and it only provides an outline of the issues to be considered. Missing is any detailed consideration of the *Grundrisse* and the significance of it in the progress towards *Capital*. Moreover, the *critical* origins of Marx's political economy receive very little emphasis. For Marx, the essence of intellectual progress was dialectical, the crucial operational element being *critique* as the means of transcending ideas interpreted to be false.

Very similar comments apply to Mandel's book, although while Vygodski does make some references to the "Theories of surplus value" manuscript, Mandel chooses to ignore it almost completely. The strength of Mandel's work is its attention to the pre-*Grundrisse* development of Marx's thought in political economy and in this sense it makes an excellent contribution to our comprehension of these matters. This, however, leaves the title of the work as an over-statement of its content.

Rosdolsky's study is far more comprehensive than the above two books. He deals at length with the role of the *Grundrisse* in the formation of Marx's political economy and utilises the "Theories of surplus value" manuscript extensively. Rosdolsky also provides a great deal of textual material, although in our view, the quoted passages, some very long, are not subjected to as much exegetical analysis as is required for proper interpretation. In providing the textual material in

the way that he does, Rosdolsky obscures the *evolutionary-dialectical* process of development involved by a lack of attention to the critical core of Marx's methodology and by the practice of quoting from the *Grundrisse*, "Theories of surplus value" and *Capital* in *ad hoc* mixtures. On many pages of the book, all three works are referred to and /or quoted from with no regard to chronological and hence evolutionary sequence. The progress in the formulation and application of Marx's crucial categories of analysis is not revealed as clearly as is possible when an evolutionary approach to reading Marx is taken. In this regard, our study is quite different from that of Rosdolsky.

In passing we should mention the more general book by Michael Howard and John King, *The Political Economy of Marx*.<sup>28</sup> These writers adopt a critico-evolutionary approach to their exposition of Marx's political economy, although their book does not purport to be a major study of our theme. Especially have Howard and King kept their interpretation of Marx's political economy in contact with its critico-historical roots and they utilize this contact to convey understanding of the contributions made by Marx to our comprehension of capitalism. To this end, "Theories of surplus value" is given the considerable attention that it warrants and the result is a significant contribution to Marxology. Our study comprises a much more detailed treatment of this aspect of Howard's and King's book.

In addition to these works, there are numerous, more specialised interpretations of Marx's work in political economy which give some attention to its evolutionary dimension. Some of these deal with particular themes in his work, some deal with particular works that Marx wrote (most especially the *Grundrisse* with "Theories of surplus value" quite neglected in this sort of literature), and some treat Marx's critiques of particular antecedent political economists. These

contributions, which vary widely in their grasp of Marxological fundamentals, will be considered in the context of those parts of our study to which they pertain.

### 1.5 OUTLINE OF THE PRESENT STUDY

Our study takes up the evolution of Marx's political economy, with emphasis upon the core category of surplus value, from its first comprehensive outline in the *Grundrisse* manuscripts of 1857-58. It was in this work that the idea of surplus was adumbrated and we analyse the initial use that Marx made of this all important concept. The evolution of the idea and its application in the context of a sustained and detailed critique of antecedent political economy is then followed through the "Theories of surplus value" manuscript of 1862-63. These two manuscript pieces formed the main preparatory writings for *Capital* and thus are the appropriate source documents for our study.

Part I of the study deals with matters preliminary to our main theme. In chapter 2 we give attention to the fact that, bibliographically, Marx's writings on political economy, especially from the *Grundrisse* onwards, were exceedingly complex. The period 1857-63 marked a major transition period in the formulation of Marx's plans for his "Economics", as his projected *magnum opus* was called for a long time. To ensure precision in tracing the context and substance of the evolving theory of surplus value and its application, we begin by undertaking an analysis of the chronological and structural features of Marx's bibliography in political economy during this period.<sup>29</sup> Included will be a discussion of his changing plans for the "Economics" about which there is some controversy between Marxologists. It is our conclusion that Marx narrowed considerably the scope of his work during the preparations for

*Capital*. This interpretation does not enjoy universal support and we present as much evidence as we can in order to substantiate our view.

In Part II of our study, the *Grundrisse* is the centre of attention. Marx began this initial attempt to draft his "Economics" with a discourse on methodology in political economy. This piece is unique in Marx's writings, as far as is known, and we consider it in detail in Chapter 3.

On the basis of this methodological discussion, Marx wrote the two substantive "Chapters" of the manuscripts and we outline their analytical core in Chapters 4 and 5. Chapter 4 deals with the formulation by Marx of the theory of surplus value and its application to the theory of profit. This formulation was based upon Marx's analysis of value and the capital-labour relationship, with the emergence of the concept of labour power being crucial in this regard. Involved too was Marx's interpretation of the nature and role of capital and this receives special attention in our Chapter. In Chapter 5, we analyse the application of the theory of surplus value to the idea of the "motion" of the capitalist economy through time. To complete this chapter, we include some consideration of the interim development of the *Grundrisse* as it appeared in Marx's 1859 publication *A Contribution to the Critique of Political Economy (CPE)*.

The reformulated paradigm for political economy was linked by Marx to its critico-historical roots in the sustained critique of received political economy found in the "Theories of surplus value" manuscript. This critique is the subject of Part III of our study. Chapter 6 deals with Marx's critical assessment of value and distribution theory in writings before Ricardo's *Principles*. Adam Smith's work was emphasised by Marx, but he also dealt briefly with the British and Continental forerunners of Smith. Chapters 7 and 8 are devoted to Marx's complex and



detailed critique of the theory of value and distribution found in Ricardo's *Principles*. The former chapter deals with method and the value-price articulation problem while the latter chapter is concerned with Ricardo's analysis of surplus value forms in the phenomenal interpretation of distribution.

Marx found much material for his critique in those writings which followed the publication of Ricardo's *Principles*. In Chapter 9, we are concerned with the more-or-less "mainstream" critics and pseudo-disciples of Ricardo's theory of value and distribution. Marx included Malthus, Torrens and Bailey as examples of critics, and James Mill and McCulloch were most prominent amongst the pseudo-disciples. The case of Marx's interpretations of John Stuart Mill is considered separately as it has been the subject of some controversy. Chapter 10 deals with two other categories of post-Ricardo writers. First, those writers who, to some extent, applied Ricardo's theory of value and distribution to a criticism of capitalism as it affected the interests of workers (the so-called "Ricardian Socialists"). The most prominent of these writers were, for Marx, Ravenstone, Hodgskin and Bray. Secondly, those writers whose ideas in some way paralleled those of Marx and to whom he ascribed a special, but still critical, status as a consequence. These were Ramsay, Cherbuliez and Jones.

In chapters 11, 12 and 13, we move into Marx's application of the value and distribution theory based on surplus value to the "laws of motion" of capitalism. Marx was impressed with the Physiocratic idea of a capitalist reproduction process as presented in the *Tableau Economique*. He ultimately utilised it as the basis for his own reproduction schema. However, he was critical of the harmonistic argument that such reproduction necessarily reflected the *reality* of capitalism as suggested by the ubiquitous use of "Say's Law" as an analytical premise. These

aspects of capitalist "motion" are examined in Chapter 11. Chapters 12 and 13 proceed to a consideration of the capital accumulation process and its consequences for capitalism and its participant classes in the form of crises. Special attention is given in these Chapters to clarifying the several *dimensions* of the accumulation and crisis phenomena, and to the limitations of Marx's preliminary thoughts on these subjects.

Part IV, the "Epilogue" to our study, comprises one chapter only. Chapter 14 presents a summary statement of the paradigm of political economy that Marx had formulated by the end of 1863 and just prior to the "final" drafting of the *magnum opus*, by then to be called *Capital*.<sup>30</sup> It is significant to note here, though, that we do not have access to all of the relevant preliminary writings for *Capital* up to this time. In particular, those parts of the 1861-63 "Critique of Political Economy" manuscripts which included material for *Capital* Books I and III are thought to be extant but have not been published.<sup>31</sup> Our summary statement thus cannot be definitive. This must await the full publication of the 1861-63 manuscripts.

1. Dobb, *Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory*, (Cambridge University Press, London, 1973); Garegnani, "On the Theory of Distribution and Value in Marx and the Classical Economists", mimeograph, Rome, June 1977; and Bharadwaj, *Classical Political Economy and the Rise to Dominance of Supply and Demand Theories*, R.C. Dutt Lectures on Political Economy 1976, (Centre for Studies in Social Science, Calcutta, 1978), and "Maurice Dobb's Critique of Theories of Value and Distribution", *Cambridge Journal of Economics*, 2, 1978.
2. *Classical Political Economy and the Rise to Dominance of Supply and Demand Theories*, p.14.
3. "On the Theory of Distribution and Value in Marx and the Classical Economists", pp.8 ff.
4. "Karl Marx and the Industrial Revolution" in R.V. Eagly (ed.), *Events, Ideology and Economic Theory*, (Wayne State University Press, Detroit, 1968), p.107.
5. "Marx's Theory of the Crisis", *Telos*, Winter 1972, p.107.
6. "Karl Marx, the Declining Rate of Profit and British Political Economy", *Economica*, 38, November 1971, p.365, p.367, p.368, p.373.
7. A more detailed treatment is provided by David McLellan, *Karl Marx: His Life and Thought*, (Macmillan, London, 1973). The early stages of Marx's evolving thought in political economy are discussed more fully in Ernest Mandel, *The Formation of the Economic Thought of Karl Marx 1843 to Capital*, (New Left Books, London, 1971).
8. These articles have been reprinted in *CW*, 1, 109 ff. A very detailed analysis of them is provided in A.F. McGovern, "Karl Marx's First Political Writings: The *Rheinische Zeitung*, 1842-1843", in F.J. Adelman (ed.), *Demythologising Marxism: A Series of Studies on Marxism*, (Martinus Nijhoff, The Hague, 1969).
9. Marx's preparatory notes and the doctoral thesis have been reprinted in *CW*, 1 at pp.403 ff and 25 ff respectively.
10. See David McLellan, *The Young Hegelians and Karl Marx*, (Macmillan, London, 1969), and Karl Marx, *Critique of Hegel's 'Philosophy of Right'*, ed. with an Introduction and Notes by Joseph O'Malley, (Cambridge University Press, London, 1972).
11. Introduction to Marx, *Critique of Hegel's 'Philosophy of Right'*, p.xiii.
12. This methodological foundation for Marx's political economy was developed in *The Holy Family* (1844, *CW*, 4, 5 ff), *Theses on Feuerbach* (1845, *CW*, 5, 3 ff) and *The German Ideology* (1846, *CW*, 5, 19 ff).

13. This article was published in the first and only edition of the *Deutsch-Französische Jahrbücher* of February 1844. Marx was joint editor of this journal. The piece has been reprinted in *CW*, 3, 418 ff.
14. In my "A Bibliographical Analysis of Karl Marx's Writings in Political Economy", Research Report or Occasional Paper No.39, Department of Economics, University of Newcastle, N.S.W., Australia, October 1977, pp.7-8.
15. The writers studies included Say, Adam Smith, Ricardo, McCulloch, James Mill, Destutt de Tracy and Sismondi. These notebooks have been reprinted in *MEGA*, 1/3, 410 ff, but the only part that has been translated into English is a piece of commentary attached to extracts from James Mill's *Elements of Political Economy* (*CW*, 3, 211 ff).
16. Reprinted in *CW*, 3, 229 ff. Analyses of this work have been provided by Istvan Meszaros, *Marx's Theory of Alienation*, (Merlin Press, London, 1970) and John Maguire, *Marx's Paris Writings: An Analysis*, (Gill and Macmillan, Dublin, 1972).
17. On Proudhon's work see George Woodcock, *Pierre-Joseph Proudhon: His Life and Work*, (Schocken Books, New York, 1972).
18. Published in the *Neue Rheinische Zeitung* during April 1849 and reprinted in *CW*, 9, 197 ff.
19. The title of these manuscripts, *Grundrisse der Kritik der Politischen Oekonomie (Rohentwurf)*, i.e. *Outline of the Critique of Political Economy (Rough Draft)*, was devised by the original editors. See *G(EV)* and *G*.
20. *Marx After Sraffa*, (New Left Books, London, 1977), p.22 n.12, emphasis in original. Cf. John Eatwell, "Controversies in the Theory of Surplus Value: Old and New", *Science and Society*, 38:3, Fall 1974, p.282.
21. Details of these manuscripts are given in Section 2.2 of Chapter 2 below. They have been published in part as *TSV*.
22. These arguments are developed in detail in Chapters 6 to 8 below.
23. It is not being argued that the classifications Vulgar and Classical were definitive. As I read it, Marx placed political economists on an implied "scale of vulgarity" according to their degree of reliance upon appearances in analysing the capitalist economy. Smith and Ricardo would be at the low end of the scale while Bastiat and Carey would be at the high end (see *G*, 883 ff.). For a further discussion see John King, "Marx as an Historian of Economic Thought", Economic Discussion Papers No.24/75, La Trobe University, Melbourne, Australia, 1975.
24. Georg Lukacs, *History and Class Consciousness* [1922], (Merlin Press, London, 1972), pp.5-6 and p.8.

25. (Abacus Press, Tunbridge Wells, Kent, 1974).
26. See footnote 4 to this chapter.
27. (Pluto Press, London, 1977).
28. (Longman, Burnt Mill, Harlow, Essex, 1975).
29. I have prepared a more elaborate bibliographical analysis and considered some associated controversy on the subject in my "A Bibliographical Analysis of Karl Marx's Writings in Political Economy" referred to in footnote 11 of this chapter.
30. See my "A Bibliographical Analysis of Karl Marx's Writings in Political Economy", section 4, for details of this drafting process.
31. See Engels' "Preface" to *K*, II, p.2 and the "Publisher's Note" in *TSV*, I, p.5. In the latter Note, the inference is that the manuscripts are held at the Institute of Marxism - Leninism in Moscow. It is surprising, however, that Vygodski's book, *The Story of a Great Discovery*, published initially in both the German Democratic Republic and Russia, makes no references to these manuscripts beyond those available generally.

## CHAPTER 2

MARX'S BIBLIOGRAPHY IN POLITICAL ECONOMY:  
PROJECTIONS AND CHANGES 1857-63.2.1 THE *GRUNDRISSE* AND ITS RESULTS (1857-59).

As we have seen, Marx had been studying political economy since 1844 and was writing some limited criticism of received theory during the 1840s. In August 1849 he moved to exile in London and there found conditions which induced him to renew his studies with added enthusiasm. He recalled in 1859:

The publication of the *Neue Rheinische Zeitung* in 1848 and 1849 and subsequent events cut short my economic studies, which I could only resume in London in 1850. The enormous amount of material relating to the history of political economy assembled in the British Museum, the fact that London is a convenient vantage point for the observation of bourgeois society, and finally the new stage of development which this society seemed to have entered with the discovery of gold in California and Australia, induced me to start again from the very beginning and to work carefully through the new material. (*CPE*, 22-3).

The move to London, then, was intellectually fortuitous as far as the development of Marx's thought in political economy was concerned. He had direct access to the wealth of theoretical and empirical literature in the British Museum Library. Moreover, he was well placed to observe at first hand the workings of bourgeois capitalism. From both these points of view London was an ideal base. The literature on political economy and the actual operation of the capitalist system were in a much more advanced stage of development in England than elsewhere in Europe.

The details of Marx's work on political economy during the early years in London prior to the drafting of the *Grundrisse* manuscripts in

1857-58 are not known. Only a very limited output appears to be extant and most of it remains inaccessible. This gap in our knowledge of Marx's writings is especially significant. It means that we cannot explain with any degree of satisfaction how Marx was able to achieve the level of methodological and analytical sophistication found in the *Grundrisse*. This level far exceeded that which he had reached in any prior known writing on political economy.

A summary of what is known about the pre-*Grundrisse* period can be brief. During 1850 Marx reviewed empirically the recent cycles of economic activity that England had experienced in an endeavour to identify some pattern of events that would indicate the imminent onset of a future crisis. The results of this research were published in the *Neue Rheinische Zeitung* during the year.<sup>1</sup> Subsequent theoretical studies over the period 1851-53 complemented this work. His 24 notebooks of the period attested to the wide range of themes that were studied most of which centred upon aspects of political economy broadly considered.<sup>2</sup> Only two articles containing original analyses are thought to have been written in the early 1850s, although some uncertainty remains about this. One written in 1851 was entitled "The Money System as a Whole" and the other dated from 1854-55 and carried the title "Money System, Credit System, Crises". Neither piece has been published.<sup>3</sup>

A significant aspect of Marx's dealings with political economy in the early 1850s was the emergence of the idea that he would prepare a work referred to initially as the "Economics". Three volumes were projected at that stage. These would cover "A Critique of Economics", "Socialism", and "History of Economic Thought". Attempts to find a publisher interested in the project failed and Marx lost interest in its immediate completion in spite of encouragement from Engels and other colleagues. There are no manuscripts which support Marx's repeated

assertions that the work was to be completed within weeks.<sup>4</sup> The task evidently proved to be greater than expected. Marx referred to the "many damned ramifications" which political economy involved indicating difficulty in ascertaining the scope of the work that would be appropriate. Engels remarked to him perceptively on this problem: "as long as you have still not read a book that you think important you do not get down to writing". (Engels to Marx, 3. April 1851, *MEW*, 27, 233-4). Marx, indeed, did not get down to writing very much in the early 1850s. The only real indication that we have of the progress that he made and felt confident in was his unsuccessful offer to the German publisher Brockhaus in the summer of 1852 of a manuscript for a book to be entitled *Modern Economic Literature in England from 1830 to 1852* (Marx to Brockhaus, 19. August 1852, *MEW*, 28, 546). No such manuscript is extant, but we may conclude that up until this time Marx was still clarifying in his own mind the work of his antecedents in political economy.

During the period from 1844 to 1857, Marx became acquainted with the literature of political economy. He acquired a grasp of its main principles but his critical abilities had not been applied to these principles. As a consequence his paradigm was that of received theory. However, in one relatively short burst of intellectual effort in 1857-58 he was able to reformulate the paradigm and present a deeper understanding of the operations of the capitalist economy.

Since his 1850 studies of economic fluctuations in England, Marx had been observing the statistics. On many occasions he detected signs of the onset of a crisis but his prognoses were each time unrealised. It was in 1857 that the evidence of an imminent crisis became so overwhelming that it induced him to renew his efforts on the "*Economics*".<sup>5</sup> His objective was to provide a sound theoretical basis upon which the social



revolution that would *necessarily* ensue as a consequence of a severe economic depression could proceed. Such was the degree of pressure that Marx felt himself to be under, that in less than a year, from August 1857 to about June 1858, he wrote a prodigious manuscript of some 800 printed pages. Rough drafted though it was, with many digressions, the *Grundrisse* represented Marx's first large scale attempt to set down his independent critical thought in political economy. The sophistication and novelty of the analyses reached well beyond that which he achieved in any known earlier writing. However, the significance of the work must be kept in perspective. Profound though his advances may have been, much room for development remained. This assessment is pursued further in Chapters 4 and 5 below.

The *Grundrisse* manuscripts comprised seven main notebooks together with an "Introduction" found in a separate notebook marked "M". The "Introduction" was methodological and the remainder was divided into two "chapters", the "Chapter on Money" and the far longer "Chapter on Capital".

In the manuscripts, Marx wrote down several plans for his future work on the "Economics" and these were amplified in his letters and later manuscripts.<sup>6</sup> From these plans we are able to trace the developing conception that Marx held of the scope and method of his "Economics".

The first of these plans was written down as part of the "Introduction" to the *Grundrisse* during September 1857 (G, 108). The format of this plan followed on from Marx's discussions of methodology in which he advocated "ascending" in abstract analysis from the simplest, a-historical categories of political economy through to those appropriate to the more complex and compound analysis of bourgeois reality, both in the national and international setting. Five topic headings were included and these reflected this procedure. We may summarise them thus:

(1) simple, a-historical categories which are common to the understanding of any economic system presented in the abstract; (2) bourgeois categories of political economy; (3) the bourgeois state; (4) international political economy; (5) the world market and crises.

When Marx began writing the "Chapter on Money", and indeed throughout the *Grundrisse* and after, he found it appropriate to consider only bourgeois categories. He deleted the first of the above topic headings from the second of his plans (G, 227). A new "first section" was substituted in which "exchange value, money, prices" were to be dealt with on the presupposition that commodities had already been produced. These most apparent and superficial categories of political economy were only a starting point and Marx revised the second topic of the plan to blend with the first. He wrote: "But by itself, it [the exchange-circulation process] points beyond itself towards the economic relations which are posited *as relations of production*. The internal structure of production therefore forms the second section" (G, 227). This approach very much reflected the framework within which Marx worked in the *Grundrisse* and can be traced even in *Capital*. The "third", "fourth" and "final" sections of this second plan followed closely those proposed in the first plan.

In the "Chapter on Capital", Marx wrote down two further plans before the end of 1857 (G, 264 and 275). These were similar to each other but departed to some extent from those just outlined. The *operational* categories exchange-circulation and production were now moved out of prominence to be replaced by those categories basic to the *appearances* of bourgeois class division and income distribution, viz. Capital, Landed Property and Wage Labour.

Marx had already given notice, even before the *first* of the above plans was written down, that he considered *capital* to be the most

important structural category with which he would have to deal. He wrote that "capital is the all-dominating economic power of bourgeois society. It must form the starting-point as well as the finishing-point ..." (G, 107). After writing some of the "Chapter on Capital", it must have become clear to him that to give capital the major emphasis and to follow this with an examination of landed property and wage labour would be the most appropriate structural framework for the "Economics".

In these plans, it was the dominant category *capital* which received most attention. The projected section on this topic was outlined at some length. While there were differences in the details of expression of the *capital* plans, the main topics included were money capital, capital in general, capital in its particular forms (circulating capital and fixed capital at that stage), capital and profit (no surplus value concept as yet), interest, competition of capitals, accumulation of capital, share capital and credit. These themes formed the basis of Marx's preparations for *Capital*, his *magnum opus*.

The third plan comprised six sections in all. Three of these we have mentioned, Capital, Landed Property and Wage Labour. The rest were similar to those of the earlier plans, the State, the State Externally, and World Market and Crises. Little elaboration of the projected contents of these latter sections was ever provided by Marx.

As Marx developed his theory of capital, some revision of the above "Capital" framework was to prove necessary. Especially was this required in order to separate the theory of surplus value from the phenomenal forms of non-labour incomes, profit and interest, and to separate the dichotomy constant capital - variable capital, appropriate for production analysis, from circulating capital - fixed capital, appropriate for the analysis of post-production circulation. In addition, some treatment of wage labour

and crises was undertaken in the "Capital" discussion. As we shall see in Section 2.3 of this Chapter, these intrusions were retained in *Capital*.

Three letters of 1858 gave more details of the plans for Marx's "Economics". He wrote to Lassalle on 22. February (*MEW*, 29, 550f) and presented a two-part outline of the project. First, and much along the lines of the 1851 "Economics" proposal, he posited three separate *works* to be written: (1) a critique of economic categories or the system of bourgeois economy critically presented; (2) a critique and history of political economy and socialism; (3) a short historical sketch of the development of economic relations or categories. Now while the *Grundrisse* contained material that could be related to each of these works, the emphasis was very clearly upon the first.

The second outline which Marx described to Lassalle provided more details of the first work. It was to comprise six "Books" respectively covering the sections of the third *Grundrisse* plan. Beyond informing Lassalle that Book I "Capital" would include "several introductory chapters", Marx gave no other details of the "Books". Further information on "Capital" was provided in another letter to Lassalle on 11. March (*MEW*, 29, 554). It was to contain sections on the production process of capital, the circulation process of capital, and their unity in capital, interest and profit.<sup>7</sup>

It was in a letter to Engels of 2. April 1858 that the nature of the previously mentioned "introductory chapters" was revealed (*MEW*, 29, 312 ff and *MEC*, 126 ff). What had been missing from the plans posited after the second in the *Grundrisse* was any explicit mention of the topics dealt with in the "Chapter on Money" of that work. Now the "first section" of the second plan reemerged and Book I "Capital" was to comprise the following structure:

- A. Capital in General
  - (1) Value.
  - (2) Money.
  - (3) Capital.
- B. Competition.
- C. Credit.
- D. Share Capital.

Marx keyed the *Grundrisse* materials to this format in two indexes written in notebook "M" in June 1858 (*G (EV)*, 855 ff). The emphasis, though, was on part A above with Book I "Capital" comprised of three "Chapters": "I. Value", "II. Money", and "III. Capital in General", much as had been suggested to Engels. The "third chapter" was to be divided into two of the sections mentioned to Lassalle, "(1) Production Process of Capital", and "(2) Circulation Process of Capital". The third section on the unity of these two was not mentioned in the present context.

Lassalle had found a publisher for this first Book of the "Economics" and Marx agreed to have it ready by May 1858. This was not to be and Marx could only finish the first two chapters.<sup>8</sup> These were published as *A Contribution to the Critique of Political Economy* in June 1859 (*CPE*). Marx undertook to prepare the "third chapter" as a second volume as soon as possible.

Prior to publication of the *Critique*, Marx made one subtle but important change to the chapter headings. The first chapter was given the title "The Commodity" in lieu of the planned "Value". The reason for this change was suggested at the beginning of a piece on value drafted at the end of the *Grundrisse*. Marx wrote of the fundamental status of the commodity in the bourgeois capitalist economy. "The first category in which bourgeois wealth presents itself is that of the *commodity*. The commodity itself appears as [the] unity of two aspects [of value, viz. use value and exchange value]." (*G*, 881.) "Commodity", "Money" and "Capital" in the chapter titles were, then, all phenomena whose *essential* nature had to be revealed. In the case of the commodity, its underlying

value status was significant, but this had to be revealed by analysis. Thus the new chapter title was more appropriate than the original.

In a notebook dating from February or March 1859, Marx had set out in some detail the projected contents of the "third chapter" keying each topic to the *Grundrisse* material. (*G (EV)*, 969 ff.) The three part treatment of "Capital" adumbrated to Lassalle in March 1858 emerged again. The parts were to be the production process of capital, the circulation process of capital and the relationship between capital and profit. A fourth part called "Miscellaneous" was appended for the considerable amount of *Grundrisse* material left over. The ultimate destination of these topics evidently remained uncertain.

Marx's endeavours to get the "third chapter" to the publisher during 1859 were not successful. Moreover, there is no extant manuscript evidence to indicate how far he did progress, if at all. From early in 1860 until August 1861 Marx gave virtually no attention to his "Economics".<sup>9</sup> He returned to his "Economics" with renewed enthusiasm once again, as in 1857, late in 1861. The period 1861-63 was especially productive as we shall see in the next Section.

## 2.2 THE POST-GRUNDRISSE BIBLIOGRAPHICAL DEVELOPMENTS:

Marx began in 1861 by renewing his attempt to finish the "third chapter" on capital. However, it must soon have become evident to him that somewhat more development of his work was required beyond that in the *Grundrisse*. The manuscripts "Critique of Political Economy", which was Marx's title, grew to a massive 23 notebooks (approximately 3000 printed pages). Its subject matter reached far beyond that designated for the "third chapter", especially with respect to its critico-historical content which occupied about half of the work. (published as *TSV*.)

The first five notebooks were related directly to the "third chapter" preparations.<sup>10</sup> Marx began work on the production process of capital and completed three parts dealing with "(1) conversion of money into capital", "(2) absolute surplus value", and "(3) relative surplus value". Part (4) was to consider the combination of absolute and relative surplus value but was not written at that stage. Instead Marx went on with "(5) Theories of surplus value" which grew to occupy notebooks VI to XV, with some additional critico-historical essays in notebooks XVIII and XX to XXIII.

The sustained critique of received political economy which Marx undertook in these notebooks enabled him to reinforce with satisfaction the basic substance of the analyses from the *Grundrisse* and to make some considerable advances in these analyses. Marx had always found the critique of his antecedents a useful intellectual stepping-off point and the present return to critique was perhaps the most useful of all.

In the remaining notebooks of the "Critique" manuscripts, the bulk of numbers XVI to XXIII, Marx prepared additional material for the section on the production process of capital together with some material for the section on capital and profit.

Marx wrote to Kugelmann on 28. December 1862 (*MEW*, 30, 639) and announced that the work he was preparing on political economy would be entitled *Capital*. The original general title would remain as a sub-title only, viz. *A Critique of Political Economy*.<sup>11</sup> *Capital* would be divided into three parts corresponding to those projected for the "third chapter" on capital. In notebook XVIII of the "Critique" manuscripts, written during January 1863 (*TSV*, 1, 414 ff), Marx gave details of the Chapters for Part I: "Production Process of Capital" and Part III: "Capital and Profit". No details of Part II on circulation were given at that stage. For Part I a nine chapter structure was outlined and for Part III twelve

chapters. Marx also gave a detailed breakdown of Chapter 2 of Part III which was to deal with the relationship between surplus value and profit, the generation of a uniform rate of profits in the presence of variations in capital composition in sectors of production, and the value-price transformation.

Two points of significance emerged in these plans. First, Marx integrated the critico-historical material into the chapter layout of Parts I and III. The critique of political economy was to be an integral part of his overall analysis at that stage. Secondly, Part I contained an important revision of the project. A new Chapter I was included with the title "Introduction. Commodity. Money." These topics had previously been published in the 1859 *Critique*, but now Marx had decided to rework them for inclusion in *Capital*. He noted to Kugelmann in a letter of 13. October 1866 that that was done in order to preserve the wholeness of his work and to clarify the meaning of the earlier presentation which Marx felt had not been well understood. (*MEW*, 31, 534).

In the years after 1863 until his death in 1883, Marx endeavoured to bring his project *Capital* to its final form. This was not achieved. Marx himself published Volume I and Engels prepared Volumes II and III from the manuscripts which Marx left.

Marx outlined a four Book structure for *Capital* to Engels in a letter of 31. July 1865. (*MEW*, 31, 132). This format was reiterated in a letter to Kugelmann of 13. October 1866 (*MEW*, 31, 534) with the added feature that *volumes* were to be used to break up the work physically.

The whole work is divided as follows:

- Book I. The Production Process of Capital.*
- Book II. Circulation Process of Capital.*
- Book III. Form of the Process as a Whole.*
- Book IV. Contribution to the History of Economic Theory.* The first volume contains the first two books. The third book will, I think, fill the second volume and the fourth book the third.

During 1864 and 1865 Marx worked on the drafting of Book III. His



hope was that all four Books of *Capital* would be published together and he made some initial attempt to prepare Book II as well in these years. Book IV, we assume, was to be assembled from the "Theories of surplus value" section of the "Critique" manuscripts. This objective was not achieved and, in spite of the projection of the Kugelmann letter cited above, Volume I of *Capital* was published in September 1867 with only Book I included.

Marx continued to work on *Capital* after 1867 and by 1878 he had prepared seven more manuscripts for Book II and one more for Book III. While he continued to work on political economy and related topics until the end of his life, the relevance of his writings to the completion of *Capital* gradually decreased. His concern for the project faded away.

### 2.3 THE TRANSITION FROM THE *GRUNDRISSE* TO *CAPITAL*.

We have now traced in outline the main bibliographical development of Marx's "Economics" pertinent to the theme of our study. Two further bibliographical issues are considered in this section. First, what status should be accorded the *Grundrisse* in the evolution of Marx's thought? Our treatment here is only by way of introduction to the detailed analysis of the work undertaken in Chapters 3, 4 and 5 below. Secondly, what are we to make of Marx's changes in the projected format and scope of his "Economics"? In the ultimate unfinished state of Marx's project, what *was* the status of *Capital*?

Received opinion has, in the main, given a status of considerable importance to the *Grundrisse* in the development of Marx's thought generally. Two main advocates of this opinion have been David McLellan and Martin Nicolaus. McLellan refers to the work as "the most fundamental work that Marx ever wrote"; and, in the context of Marx's thought as a

continuous "meditation on central themes broached in 1844," he writes that "the high point of ... [this] meditation occurred in 1857-58." Thus, Marx's intellectual development as "a process of self-clarification is described by McLellan in these terms:

The central point of this process is neither the *Paris Manuscripts* nor *Capital*, but the *Grundrisse* ..., the work which, more than any other, contains a synthesis of the various strands of Marx's thought .... In a sense, none of Marx's works is complete, but the completest of them is the *Grundrisse*.<sup>12</sup>

Nicolaus expresses a similar opinion when he writes of the *Grundrisse* that it was "the only truly complete work on political economy that Marx ever wrote." He goes on to add that

... several more volumes of *Capital* would have been necessary before Marx could catch up with the point he had reached in the outline of his system in the *Grundrisse*. *Capital* is painfully unfinished, like a mystery novel which ends before the plot is unravelled. But the *Grundrisse* contains the author's plot outline as a whole.<sup>13</sup>

Now there are grounds only for a limited and qualified acceptance of such laudatory views of the *Grundrisse* manuscripts. They were written in the context of a six-part plan and, as a consequence of their rough-draft nature, were bound to contain digressions which pertained to most components of the overall project. Marx himself wrote of the work to Engels: "In the manuscript (which could make a sizeable book if printed) everything is topsy-turvy and there is much [in it] that is intended for later parts" (letter of 31. May 1858, *MEW*, 29, 330). The "later parts" were those beyond "Capital" and it was clear from the layout of "Book 1: On Capital" that the manuscripts were meant primarily to be a draft of this part of the "Economics". We can thus see only a very limited case for the significance given to the work by McLellan and Nicolaus. As we shall argue in some detail in Chapters 4 and 5 below, this qualification is strongest in the case of the political economy *per se* of the *Grundrisse*. Nicolaus' assessment is just too strong when the analyses of the work are considered in the light of subsequent advances made by Marx.<sup>14</sup>

Rosdolsky's assessment of the *Grundrisse* is more sober.<sup>15</sup> He notes that a cursory reading of the *Grundrisse* may suggest that it contains the basic structure of *Capital*. This is evidenced by the rough sequence of argument that Marx followed in the work. He began with the production process of capital, moved through the circulation process to the analysis of capital and profit. Such an appearance, though, is deceptive Rosdolsky argues. The *Grundrisse* does not approach the status of *Capital* in at least two senses.

First, its analysis is confined largely to the level of capital in general. This means that Marx was not required to consider capital composition, variations in production and the consequent problem of explaining the uniform general rate of profits which competition would generate. Secondly, the substantive *scope* of the *Grundrisse* is not as great as that of *Capital*. Themes are developed in the latter which do not appear in the former.

Now Rosdolsky's second point really only confuses the issue. McLellan, with some justice, would probably argue the point the other way around. The *Grundrisse* contains themes which were not taken up in *Capital* for the reason that in the six-part view of the "Economics", *Capital* had a narrower purpose. The first point made by Rosdolsky, though, needs some further consideration. The analytical limitation noted is largely valid as we shall argue further in Chapters 4 and 5 below. Be this as it may, the *Grundrisse* must still be considered a work of profound analytical significance in the evolution of Marx's thought in political economy. This is emphasised more by comparing what went before than what came after it.

Turning now to the second issued to be raised in this section, viz. what significance can be ascribed to Marx's changing scope and format of his "Economics"? As we have seen, the *Grundrisse* was drafted in the

context of a six part project. The "final" outcome of that project was *Capital*. What, then, happened to the six part project? Was *Capital* the first of six Books or was it a revised, self-contained version of the "Economics"? The evidence on this issue has allowed some difference of opinion to be generated about the appropriate interpretation of Marx's evolving "Economics" project.

The puzzles evidently originated with Karl Kautsky's expressed view that Marx changed his mind about what the "Economics" should contain. This change was argued by Kautsky to have taken place between 1859 when the six-book plan was last referred to in the Preface to the *Critique* and 1865 when Marx announced to Engels a four-book format for *Capital*. That Marx rejected completely the original plan was more fully analysed and upheld by Henryk Grossman in 1929.<sup>16</sup> In his view, there was a methodological shift already evident in the plans of early 1863 found in the "Critique" manuscripts. Marx pointed to this shift in the change of title for the "Economics" to *Capital* and in his statement to Engels that he had found it necessary to "shift everything around" in his economic analyses (letter of 15. August 1863, *MEW*, 30, 368). Vitali Vygodski<sup>17</sup> expresses support for this view and so does Keith Tribe<sup>18</sup> arguing that any other view is unsoundly based.

By contrast to this interpretation, some writers take the view that the six-book project was never abandoned or modified in any substantive way. In this view, *Capital* retains the status of being but the first Book of six. Maximilien Rubel and his co-worker Margaret Manale are perhaps the strongest advocates of this viewpoint.<sup>19</sup> A similar stance is implied by Martin Nicolaus in his "Foreword" to his English translation of the *Grundrisse*, even though he grants that the development of the Books was to be "uneven" (*G*, 54-5). In two places, David McLellan also argues this interpretation, citing earlier work by Otto Morf in support.<sup>20</sup> He makes

the point that any change was one of size only, not of methodology.

In McLellan's work we also find a third possible interpretation of this issue, which perhaps serves to emphasise the ambiguity of the evidence. The bibliographical table posited by McLellan<sup>21</sup> shows that the projected Books I-III on capital, landed property and wage labour were all absorbed into *Capital* while the remaining Books comprised the unwritten continuation of the "Economics". This table is similar to that presented by Rosdolsky who states that Marx never abandoned the idea of completing the last three Books of the original project.<sup>22</sup> He argues that the change involved Book II being absorbed into Volume III of *Capital* and Book III into Volume I. In addition, the original sections of Book I "Capital" dealing with competition, credit and share capital were absorbed into Volume III of *Capital*. This third interpretation has also been espoused by Ben Brewster, Salo Ryazanskaya and Ronald Meek.<sup>23</sup>

It is our contention that the original Kautsky-Grossmann interpretation is correct. While the evidence cannot be conclusive, we consider that the weight of it must be taken to support this view.

We have noted that Marx had adhered to the six-book plan at least until early 1859 when the "Preface" to the *Critique* was written. At that stage, the overall title for his "Economics" was to be *Critique of Political Economy*. "Book I: On Capital" was to be but one of the six, albeit a very important one and clearly the dominant object of Marx's immediate intellectual concern. By January 1863 the project with which Marx was concerned had the following structure:

*Capital: A Critique of Political Economy*  
 Part I: Production Process of Capital  
 - nine Chapters.  
 Part II: Circulation Process of Capital  
 - no draft plan extant.  
 Part III: Capital and Profit  
 - twelve Chapters.<sup>24</sup>

Now this format for the "Book" dealing with "Capital" provides no immediate

substantiation of our view that Marx changed the overall plan of his "Economics". It could have been his intention merely to change the layout of the first book of the six. There is a clear association between the above format and that previously projected for Book I "Capital", Chapter III in the 1858 plans. There are several reasons why this possibility should be heavily discounted.

The first point to note is that what was earlier the title for the whole of the "Economics" appeared in the revision as a subtitle. Moreover, as it was stated to Kugelmann in the letter of 28. December 1862, the title *Capital: A Critique of Political Economy* became too general to be applied merely to one Book of a total project which would involve Critique of political economy throughout.

Beyond this, it is readily established initially that at least "Landed Property" and "Wage Labour" were absorbed into *Capital* as several writers have argued. As early as 2. August 1862, Marx had written to Engels of his intention "to bring the theory of rent already into this book ["Book I: On Capital"]" (MEW, 30, 263). The contents of the *Capital* manuscripts later confirmed this intention and Marx reported to Engels, in the context of preparing *Capital*, on 13. February 1866, that the "discussion of ground rent alone is, in its present form, almost book length" (MEW, 31, 178). No mention was made of this analysis belonging to another Book. Subsequently, in a letter to Kugelmann dated 6. March 1868, Marx reiterated that the "second volume" (Books II and III) of *Capital* would include the analysis of Landed Property (MEW, 32, 539).

There is, in addition, also some methodological evidence for the view that Marx dissolved the landed property and wage labour Books into *Capital*.<sup>25</sup> Of the methodological relationship between the first three Books of the original six-book project, Marx wrote in 1858 that:

In the whole of this section ["Book I: On Capital: A. Capital in General] it is assumed that the wages of labour are constantly

equal to their lowest level. The movement of wages and the rise or fall of the minimum come under the consideration of wage labour. Further landed property is taken as = 0; that is, nothing as yet concerns landed property as a particular economic relation. This is the only possible way to avoid having to deal with everything under each particular relation. (Marx to Engels, 2. April 1858, *MEW*, 29, 312 f)

Now this approach was preserved in *Capital*. Wages and labour relations were discussed as an addition to the basic assumption of Book I that labour power was sold at its value, and Books I and II abstracted from land and rent although these topics emerged in Book III. Moreover, in the four-book format for *Capital* announced in 1865, Marx included a separate Book for the critical history of political economy. It is significant that he wrote of this Book to Engels:

... there is still the fourth book to write - the historico-literary one. This is relatively the easiest for me as all the [theoretical] problems are solved in the first three books and thus this last one is more of a repetition in historical form. (31. July 1865, *MEW*, 31, 132.)

We note here that it was "all" the problems that were solved in the first three Books of *Capital* implying that Marx saw the work as an analytical, self-contained whole. Also, if the manuscript "(5) Theories of surplus value" is any guide to what the fourth Book was to contain, and it *is* the only indication available, then the "repetition in historical form" included much on wage labour and land rent.

So far, we have argued through the evidence for the contention that Marx intended to absorb Books II and III into *Capital*. We turn now to the evidence pertaining to the fate of the last three Books.

The crucial factor here is that although the analysis was incomplete, Marx *did* consider *crises* as an integral part of the theme of *Capital*. Yet, from the time that he drafted the first "outline" of his "Economics" in the *Grundrisse* "Introduction", Marx had placed this topic at the very end of his work. Not until the complete analysis of bourgeois capitalism in both national and international settings had been worked through could

crises be considered. This was clearly stated in the second of the *Grundrisse* "outlines" where, referring to the final section of the project, Marx wrote:

... the world market the conclusion, in which production is posited as a totality together with all its moments, but within which, at the same time, *all contradictions come into play*. The world market then, again, *forms the presupposition of the whole as well as its substratum*. *Crises are then the general intimation which points beyond the presupposition, and the urge which drives towards the adoption of a new historic form.*  
(G, 227f, emphasis added.)

Clearly, the theory of crises was to be the *culmination* of Marx's "Economics". During the writing of the *Grundrisse* manuscripts, it became evident to him that crisis analysis followed *immediately* from the theory of capital and accumulation. This must have become even more obvious as he worked through the critique of political economy in the early 1860s. The theoretical base needed to expose the contradiction and crisis prone nature of capitalism's "laws of motion" proved to be significantly less extensive than Marx originally envisaged. However, had he intended to pursue the original project, in part or in full, after 1862, the inclusion of crises analysis in *Capital* would have been grossly premature. While his work on crises is the least well developed facet of the book, there is no evidence that this was due to it being approached with an incomplete analytical base.

There exist in Marx's writings some *obiter dicta* which at first sight provide evidence that *Capital* was not the complete project that he envisaged. Three of these appeared in the manuscripts for *Capital*.<sup>26</sup> At the beginning of Chapter XX dealing with wages in Volume 1, Marx wrote: "Wages themselves again take on many forms, .... An exposition of all these forms, however, belongs to the special study of wage-labour, not therefore to this work." (K, 1, 508). In Volume III, when considering ground rent, he wrote a note of similar tenor about landed property: "the analysis of landed property in its various historical forms is beyond



the scope of this work ...." (K, 111, 614). Also in Volume 111, Marx mentioned the credit system and world market in passing and noted that these topics did "not come within the scope of this work and belong to its eventual continuation." (K, 111, 110).

In the first two of these *dicta* the expression used by Marx was simply that these topics were beyond the scope of the work that he was writing. For a writer to use this expression, he does not have to be planning to write a work which would include such topics. It is a much more common expression than that. The reference by Marx to an "eventual continuation" of the work in the last passage does complicate the issue a little. However, there is no evidence that Marx ever expressed any intention *on his part* to work beyond *Capital* after 1862. Indeed, he suggested in the letter to Kugelmann of 28. December 1862, in which the *Capital* project was announced, that these future developments might appropriately be carried out by someone else on the basis of the analyses already provided. He noted that *Capital* was to be based upon the subject matter intended originally for the "third Chapter" continuation of "Book I: On Capital", and he went on:

The content of this volume consists of what the Englishman calls 'the principles of political economy'. It is (together with the first bit [the two chapters on commodities and money]) the quintessence and the development of what follows would be easy to complete, *even by others on the basis of what has been done.* (MEW, 30, 639, emphasis added.)<sup>27</sup>

While we have argued that the "quintessence" expanded in its scope to include material beyond the "third Chapter" plus the "first bit", *nowhere in the extant work done by Marx after 1862 was there any suggestion that the project that he was working on was anything beyond Capital.*

We conclude, then, that the available evidence, on balance, supports the argument that Marx abandoned the six-book "Economics" project after 1862. *Capital* became his *magnum opus*. It was never completed, but it was self-contained and represented the necessary revised paradigm of political

economy required to comprehend the "laws of motion" of capitalism. Thus, in our study, the evolution and analytical significance of the theory of surplus value is set in the context of Marx's political economy developing towards the methodological and substantive structure of *Capital* as its "end". No speculation about the role of unwritten books is needed to present an integrated argument.

## NOTES

1. Reprinted in K. Marx *The Revolutions of 1848*, ed. D. Fernbach, (Penguin Books, Harmondsworth, 1973), pp.265 ff.
2. These notebooks are extant but unpublished in full. Those pertaining to Ricardo, numbers IV and VII of the series have been reprinted in an appendix to *G(EV)*, pp.768 ff.
3. See Martin Nicolaus' "Foreword" to *G*, p.12.
4. Such hopes were expressed in Marx to Engels, 2. April 1851, (*MEW*, 27, 228) and in Marx to Weydemeyer, 27. June 1851, (*MEW*, 27, 559).
5. Marx referred to the stimulus he received from the apparent economic downturn in his letters of 1857. See especially those to Engels, 8. December 1857, and to Lassalle, 21. December 1857, *MEW*, 29, 225 and 548 respectively.
6. Roman Rosdolsky lists 14 outlines of Marx's projected "Economics" that were written between September 1857 and April 1868. These varied widely in their detail. Eight were found in Marx's manuscripts and six in his letters. See *The Making of Marx's 'Capital'*, p.55. My discussion is based upon Rosdolsky's list.
7. Marx had hinted at such a breakdown for the discussion of capital earlier in the *Grundrisse* text, notebook III written late in 1857 (*G*, 320).
8. On Marx's various stated reasons for not finishing the "third Chapter" see my "A Bibliographical Analysis of Karl Marx's Writings in Political Economy", pp.31-2.
9. The period was one of overwhelmingly bitter polemic with Karl Vogt which preoccupied Marx. See McLellan, *Karl Marx: His Life and Thought*, pp.310 ff.
10. On Marx's post 1861 bibliography in political economy see Engels' "Preface" to *K*, II and Salo Ryazanskaya's "Preface" to *TSV*, I.
11. The significance of this change will be discussed in section 2.3 below.
12. D. McLellan, *Marx's Grundrisse*, (Paladin, St. Albans, Herts, 1971) p.20, p.22, p.25.
13. M. Nicolaus, "The Unknown Marx", *New Left Review*, 48, 1968, p.43 and p.55.
14. I have summarised the limitations of the *Grundrisse* in my "Aspects of Marx's *Grundrisse* as Intellectual Foundations for a Major Theme of *Capital*", *History of Political Economy*, 11:2, Summer 1979.

15. *The Making of Marx's 'Capital'*, passim.
16. See K. Tribe, "Remarks on the Theoretical Significance of Marx's *Grundrisse*", *Economy and Society*, 3:2, 1974, pp.200-1.
17. *The Story of a Great Discovery*, p.118.
18. "Remarks on the Theoretical Significance of Marx's *Grundrisse*", p.198.
19. Expressed to me in private correspondence, 19. July 1975.
20. *Marx's Grundrisse*, p.21 and *Karl Marx: His Life and Thought*, p.294 n1.
21. *Karl Marx: His Life and Thought*, p.467.
22. *The Making of Marx's 'Capital'*, p.56 and 53.
23. B. Brewster, "Introduction to Marx's 'Notes on Machines'," *Economy and Society*, 1:3, 1972, pp.236 ff; Ryazanskaya, "Preface" to *TSV*, 1, pp.13 ff, and R.L. Meek, *Studies in the Labour Theory of Value* [1956], second edition, (Lawrence Wishart, London, 1973), pp.viii ff.
24. *Vide* the plans in notebook XVIII of the "Critique" manuscripts, *TSV*, 1, 414-6.
25. I owe much of the discussion on this point to Ronald Meek, *Studies in the Labour Theory of Value*, second edition, pp.ix f.
26. The first two of these were pointed out to me by Margaret Manale in our correspondence while the third is cited by Martin Nicolaus in his "Foreword" to *G*, 54.

PART 11

MARX'S ANALYSES IN THE *GRUNDRISSE*

## CHAPTER 3

## METHODOLOGICAL PREMISES FOR A REFORMULATED POLITICAL ECONOMY

## 3.1 PRELIMINARY REMARKS

The "Introduction" to the *Grundrisse* which Marx drafted in August and September of 1857 marked the beginning of his first large-scale presentation of a reformulated paradigm for the analysis of capitalism. He began methodologically and critically examined the received categorical structure of political economy. Out of this critique, he devised an analytical framework of categories which he thought appropriate for the understanding and presentation of the *essential* nature of the capitalist economy.<sup>1</sup>

James Mill had been most explicit about the main *operational* categories of political economy. In Mill's *Elements of Political Economy* (1826), Marx had read the following outline of these categories:

It ... appears that four enquiries are comprehended in this science.

1st. What are the laws, which regulate the production of commodities:

2ndly. What are the laws, according to which the commodities, produced by the labour of the community, are distributed:

3rdly. What are the laws, according to which commodities are exchanged for one another:

4thly. What are the laws, which regulate consumption[?].<sup>2</sup>

Marx argued in the "Introduction" that these categories were logically interdependent. *Production* was the dominant operational function in capitalism. As a consequence it was production which determined the form of distribution. Exchange, and circulation, were necessary extensions of the production process too. Without them exhibiting specific qualitative and quantitative features, *reproduction* could not be realised. The link to consumption was not as obvious, but it was essential that the

use value of the commodities produced met certain needs. This was a *necessary* condition for reproduction, but by no means a *sufficient* one. Thus Marx saw capitalism as a unity of functions, a unity which had to be the basis of his analysis and which was to be reflected in the paradigm of categories that he intended to devise.

In the *Grundrisse* "Introduction" it was *capital* which formed the centrepiece of the paradigm. It was the existence of capital which gave form to the mode of production, and its associated operations, and to the social relations of production under capitalism. We have seen in Chapter 2 above how this category dominated the basic framework of Marx's "Economics". In subsequent chapters we will show how this dominance manifested itself analytically.

One further feature of the "Introduction" was that it included a statement of Marx's basic methodology of analysis. He argued that by means of "logical synthesis" complex reality could be represented in the abstract. This involved the formulation of a set of categories abstracted from the reality and their intellectual re-assembly into an organic whole. The complexity of the "model" of reality so formed could be increased, and with it the approximation to the details of reality, by adding more categories. This methodological stance can be identified in the analyses of the political economy of capitalism which Marx developed.

The three facets of the "Introduction" that we have considered represented significant "methodological innovations".<sup>3</sup> They are significant in our study for two reasons. First, they give *some* explanation of how Marx was able to write the *Grundrisse* at such high level of analytical sophistication by comparison with his previous writings. The clarification of these three issues which he achieved through writing the "Introduction" enabled him to formulate more clearly the direction of development needed to generate the alternative paradigm

that he sought. Secondly, the "Introduction" is Marx's only known exposition on method in political economy. Consequently, the piece provides us with the only reference point for ascertaining the implied methodological foundations of the analyses we are to consider below. A careful analysis of the "Introduction" is thus an essential part of our study.

### 3.2 BASIC METHODOLOGY.

What Marx considered to be the fundamental object of political economy has been stated by Roman Rosdolsky:

... it is the specific social forms of production and distribution which, in Marx's view, constitute the real object of economic analysis; and it is ... [the] 'lack of theoretical understanding needed to distinguish the different form of economic relations' combined 'with a crude obsession with the material' which characterises previous economics, even in its best representatives.<sup>4</sup>

Marx recognised "that the anatomy of ... civil society ... has to be sought in political economy" (*CPE*, 20). Indeed, his analysis of capitalism went beyond revelations in "anatomy". His revised paradigm enabled him to assess its "physiology" also (*TSV*, 11, 165 and 166).

The functioning of the capitalist society was based firmly upon man's productive activity, a form of productive activity which was determined by the existence of capital. Comprehension of the nature of the capitalist society depended upon an intellectual process employing *categories* as raw material. This process involved the generation in the mind, in the abstract, of a faithful intellectual replica of the *essential* facets of the real. Two stages were necessary to achieve this. First, the categories to be used had to be "distilled" in effect from the observed reality of the capitalist society.

The abstraction, or idea, ... is nothing more than the theoretical expression of those material relations which are their lord and master (*G*, 164).



What Marx did not explain in this argument was how categories that reflected the unobserved yet essential relations of capitalism, e.g. value and surplus value, were formulated. The ingenuity of the analyst must play a role in this process too. Secondly, once the category set had been devised, a process of *logical synthesis* would re-assemble the "distilled" mental components of the abstracted real into the intellectual replica. This replica would provide a comprehension of both the *essential* and *phenomenal* functioning of the capitalist society.

Marx summarised the above processes in the following passage:

The concrete [reality] is concrete because it is the concentration of many determinations [constituent components], hence unity of the diverse. It appears in the process of thinking, therefore, as a process of concentration, as a result, not as a point of departure even though it is the point of departure in reality and hence also the point of departure for observation and conception. (G, 101.)

He gave as an example of the concrete "*population*". To comprehend population, its component determinants first must be discovered by analysis. Comprehension would then follow by logical synthesis of component categories with the degree of comprehension depending upon the number and complexity of categories assembled. The full intellectual replica of "*population*" can thus be approached progressively. For Marx, this process of synthetic cognition was the "scientifically correct method" for political economy to use. (G, 100-1.)

The process of "logical synthesis" raised the issue of the appropriate meaning of "logical" in ordering economic categories. Marx denied that the historical evolutionary sequence associated with a concrete reality would necessarily be suitable.

It would ... be unfeasible [*sic*] and wrong to let economic categories follow one another in the same sequence as that in which they were historically decisive. Their sequence is determined, rather, by their relation to one another in modern bourgeois society .... (G, 107.)

Not only, then, must the analyst "distill" the necessary categories from

the concrete, but he must also be able to discover their correct ordering more or less *a priori*. Marx called again here for considerable ingenuity.

As an example to illustrate his point here, Marx observed that in drafting his "Economics" nothing seems more natural than to begin with ground rent" (G, 106). This followed from the *historical* logic that because the earth had been the general source of man's survival from the beginning of human history, and because agricultural production and subsequently landed property were at the root of man's *organised* survival, then this was where the process of comprehension of the *bourgeois* economy should begin. There was an element of this in both the Physiocrats' and Ricardo's portrayal of agriculture as dominant in economic affairs. Marx rejected this approach for it was *capital* which dominated bourgeois capitalism and it which had to be given intellectual priority.

Capital is the all dominating economic power of bourgeois society. It must form the starting-point as well as the finishing-point, and must be dealt with before landed property. (G, 107.)

This priority given to the category capital was reflected in all of Marx's subsequent writings in political economy.

Because the status of categories was peculiar to a particular stage of history, interpretations of such status could not immediately be transferred through time.

Although it is true ... that the categories of bourgeois economics possess a truth for all other forms of society, this is to be taken only with a grain of salt. They can contain them in a developed, or stunted, or caricatured form etc., but always with an essential difference. (G, 106.)

This assessment, Marx argued, applied to some especially significant categories of political economy.

Money was an example cited. It was a category which had appeared in economic writings since antiquity. It took a dominant role in the

comprehension of trade, reaching a peak of significance during the "Mercantilist" era. In the subsequent emergence of bourgeois capitalism in which production was emphasised, money took on a more minor role in political economy (G, 102).

More significantly, the category *labour* had a long history also. It *seemed* a quite straightforward category, Marx argued, and this may have been the sort of status it had prior to production dominated capitalism. However, once value was argued to have its origins in the activity of labour, the status of the category changed. And it changed in two senses. Homogeneous abstract labour was conceptualised in the explanation of exchange value in order to give commodities with different use value forms some common substance. In this process, all particular forms of labour were abstracted from. In addition to this, Marx argued that this simplification of labour conceptually had its dual in reality. Under capitalism, the machinery based mode of production required mostly only simple operator labour.

Marx argued, then, that the historical relativity of categories was a significant element in analysis. While the names might remain the same, the meanings of categories would not over historical time. Socio-economic orders were under the continuous pressure of immanently generated dialectical change. The categories used to comprehend them must also change in concert. Political economy had not recognised this generally (some writers being excepted, e.g. Richard Jones, *TSV*, 111, 399 ff) and thus remained unable fully to comprehend the "laws of motion" of capitalism.

The objective of Marx's "logical synthetic" method of analysis in political economy was to provide a comprehension of capitalism which went beyond that available in received theory. He wanted to reach behind the phenomena of capitalism to expose its *essential* nature. Whatever might

be thought of the epistemological viability of such a methodology, we shall proceed on the understanding that this was what Marx himself envisaged as *his* objective. While he never returned to any formal statement of his methodological premises, he did provide a number of *obiter dicta* in support of our understanding.<sup>5</sup>

The first of these appeared in the *Grundrisse*:

In present bourgeois society as a whole, this positing of prices and their circulation etc. appears as the surface process, beneath which, however, in the depths, entirely different processes go on, in which this apparent individual equality and liberty [in exchange] disappear. (*G*, 247.)

In the 1861-63 "Critique" manuscripts, Marx commented upon what he interpreted to be a duality in Adam Smith's method, the more appropriate facet of which Smith had failed to develop. Again the methodological message was the same.

One of these conceptions [of method] fathoms the inner connection, the physiology, so to speak, of the bourgeois system, whereas the other takes the external phenomena of life, as they seem and appear and merely describes, catalogues, recounts and arranges them under formal definitions. (*TSV*, 11, 165.)

The latter descriptive form of analysis could not comprehend the inner essence of capitalism. Moreover, "all science would be superfluous if the outward appearances and the essence of things directly coincided" (*K*, 111, 817).

For the context of our study, this methodological stance adopted by Marx is of fundamental significance. The theory of surplus value was perhaps the most important manifestation of its application. The theory provided the *essential* root of the phenomena of capitalist distribution with which political economy had to deal. At the very beginning of "(5) Theories of surplus value" in the 1861-63 "Critique" manuscripts, Marx wrote:

All economists share the error of examining surplus value not as such, in its pure form, but in the particular forms of profit and rent. What theoretical errors must necessarily arise from this will be shown more fully in Chapter III [that which became Book III]

of *Capital*], in the analysis of the greatly changed form which surplus value assumes as profit. (*TSV*, 1, 40.)

The same idea was presented later in the following passage even more explicitly:

Surplus value and the rate of surplus value are ... the invisible and unknown essence that wants investigating, while rate of profit and therefore the appearance of surplus value in the form of profit are revealed on the surface of the phenomenon [of capitalism]. (*K*, 111, 43.)

In virtually all of our subsequent analysis of Marx's evolving political economy, this methodology will be evident.

### 3.3 CATEGORIES OF POLITICAL ECONOMY RECONSIDERED.

Marx's method required that he formulate a body of categories appropriate for the comprehension of the capitalist economy. His study of political economy had revealed to him those which were in orthodox use. These provided him with a framework of *phenomenal* analysis. At this point it is necessary for us to emphasise that *Marx did not question the existence of and necessity for these phenomenal categories*. They would have to remain an integral part of the completed comprehension of capitalism.

With regard to the categories of political economy, Marx did three things in the *Grundrisse* "Introduction." First, he re-presented the logical interdependence of the orthodox categories in order to project the capitalist economy as an organic whole. Secondly, and following on from the first point, he reviewed the ordering of the categories necessary in order that a logical synthesis would represent accurately the determinants of the nature of capitalism in its mode of production and social relations of production. Marx complained of the political economists that:

In bringing things [as categories] which are *organically* related into an *accidental* relation, into a merely reflective connection,

they display their crudity and lack of conceptual understanding. (G, 88, emphasis added.)

Thirdly, he probed the relationships between these orthodox categories in order to reveal the underlying *essential* categories and relationships which reflect the true nature of capitalism. In penetrating beyond appearances, Marx felt that his method was "scientifically" objective and not subject to the obscurantism practised, wittingly or unwittingly, in received political economy.

In the "Introduction", Marx emphasised that it was the mode of production which dominated in determining the nature of a socio-economic order. Marx opened the discussion with the heading "(1) Production" and began: "The object before us, to begin with, [is] *material production*". (G, 83).

The process of production involved *individual* activity designed at least to sustain life. But there the individual side of production ended for Marx. He went on immediately to emphasise the *social* nature of the process which determined the individual involvement in production under capitalism. In its emphasis on the individual, political economy had not explored the social ramifications of capitalist production.

When a feudal order dominated, the social aspects of production were obvious in their formality. In the capitalist economy, the individual *appeared* to have become autonomous, free willed and equal to all others in the dominant process of competitive exchange. But, this appearance obscured a structure of interdependencies which, when revealed, enabled the *social* relations of production to be presented. The *appearance* of harmony was thus translated into an *essential* conflict.

Once it had been established that the subject of production was a *social* subject, Marx decided which concept of production he should adopt. Four options initially presented themselves. These were production in its historical evolution, bourgeois capitalist production, an abstract,

ahistorical production-in-general, and production as a technological process.

It was clear to Marx that "modern bourgeois production ... is indeed our particular theme" (G, 85). He accepted that the history of production was important, but it would be treated separately.<sup>6</sup> The idea of analysing a model of production-in-general was part of the first of the *Grundrisse* plans for the "Economics" (G, 108). Such an analysis was never developed as that part of the plan was omitted in the second formulation (G, 227).

Initially Marx rejected also the technological concept of production. It was a necessary presupposition to his study, but the analysis of technology did not form part of political economy (G, 86). Later he was to realise that the changes of capital composition reflecting technological change *were* an integral part of the "laws of motion" of the capitalist economy and could not be omitted.

#### 3.4 DISTRIBUTION IN ITS CONTEXT.

Important though production was in determining the form of capitalist economy, Marx recognised that:

Before going further in the analysis of production, it is necessary to focus on the various categories which the economists line up next to it. (G, 88).

Rather than merely "lining up" these categories, Marx intended to show that they were an integral part of the analysis of capitalism as an organic whole. There was necessarily a high degree of interdependence and interdetermination between them.

In this section we analyse that part of the "Introduction" which Marx entitled "(2) The General Relation of Production to Distribution, Exchange, Consumption". We shall concentrate mainly upon the production-

distribution relation but recognise that the context in which it is set includes exchange and consumption as well.<sup>7</sup> This treatment is consistent with the theme of our study.

Although the following passage summarises a conception of the interdependence of the operational categories of political economy that Marx labelled as "trite", it does present an important basic framework.

Production creates the objects which correspond to the given needs; distribution divides them up according to social laws; exchange further parcels out the already divided shares in accord with individual needs; and finally, in consumption, the product steps outside its social movement and becomes a direct object and servant of the individual need, and satisfies it in being consumed. Thus production appears as the point of departure, consumption as the conclusion, distribution and exchange as the middle .... (G89.)

Distribution was posited as a social mediation between production and consumption, while exchange was also a mediation which reflected individual preferences rather than being social. Once distributive shares were determined, exchange followed to allocate the particular use values to consumers within the constraints presented by the distribution. The distinctive feature of consumption noted by Marx was that it involved an individual act which took place outside of the *social* context of production-distribution-exchange.

Received political economy had failed to recognise the essential unity of these operational categories. It had suggested that each was more or less autonomous and Marx was especially concerned with the cleavage between production and distribution that this implied. His favourite target of criticism in this matter was J.S. Mill who had argued that production followed a natural law independently of distribution which was a function of social determinants. It was, Marx wrote:

As if this rupture had made its way not from reality into the textbooks, but rather from the textbooks into reality, and as if the task [of political economy] were the dialectic balancing of concepts and not the grasping of real relations. (G, 90.)



A correct logical synthesis required the presentation of the categories in their essential unity, ordered according to the reality that they reflected. No artificial admixture of categories could be adequate.

Of consumption Marx wrote that it was an essential precondition of the production process. The production-consumption unity was not immediate and a full appreciation of their interdependence required a knowledge of the particular conditions of distribution and exchange which mediated between them.

The immediate unity in which production coincides with consumption and consumption with production leaves their immediate duality intact. (G, 91.)

So, although the two categories represented components of a single process of capitalist reproduction as a whole in which production dominated, in the social setting the links between them were not direct.

*Distribution* steps between the producers and the products, hence between production and consumption, to determine in accordance with social laws what the producers' share will be in the world of products. (G, 94.)

For Marx, the "producers" were the workers. The "social laws" that they faced operated through private property which was an integral part of the capitalist order. Private property in the means of production with which labour worked gave rise to private property in the products of labour. The form of the distribution of produced value was determined by the owners of the means of production to whom the *total* value initially accrued. Distribution proceeded upon the basis of ensuring reproduction of the capitalist regime from period to period. Marx's response to the question "does distribution stand at the side of and outside production as an autonomous sphere?" was to be a definite negative (G, 94).

At the phenomenal level of analysis, production involved the interaction of capital, labour and land. These categories had a dual existence in the capitalist reproduction process. They were agents of production while concurrently *appearing* as the sources of income, i.e. the

determinants of a specific form of distribution (*G*, 95). The category *capital* was a case in point. It was clearly an agent of production, the dominant and determining one in the capitalist economy. The forms of the labour process and the use of land both depended upon the form of application of capital to production. In addition to this, the innate nature of capital was to strive to sustain and expand itself through accumulation. Accumulation required the payment of profit and interest. As a consequence, these two components of distribution were an integral part of the reproduction process. Similar reasoning could be applied to the payment of wages and *wage* labour and rent and landed *property*.

The relations and modes of distribution ... appear merely as the obverse of the agents of production .... The structure of distribution is completely determined by the structure of production. Distribution is itself a product of production, not only in its *object*, in that only the results of production can be distributed, but also in its form, in that the specific kind of participation in production determines the specific form of distribution .... (*G*, 95.)

Marx dismissed the argument that the distribution form preempted the form of production, in spite of what might have appeared to be the situation (*G*, 96-98).

Marx's treatment of the links between exchange and production was brief but produced a result that was analogous to the unity of the production-distribution relation (*G*98-9). He began by noting that the totality of exchanges comprised circulation. The effect of this was to identify exchange with circulation such that where exchange was referred to subsequently in this discussion, the category circulation was also implied.

Marx argued the production-exchange (circulation) link via consumption. If, as he had asserted, consumption was to be considered as a moment of production, then exchange (circulation), which ensued as a consequence of production determined distribution, must also be a moment of production. Exchange (circulation) was, as Marx saw it, the integrated

mediation between production and consumption. The detail of Marx's analysis of this point mentioned four components of the exchange (circulation) totality, viz. exchange within production, exchange of non-final commodities moving through separated stages of production, exchange between dealers in commodities, and exchange involving final consumption. Only the last of these, he argued, *appeared* to be independent of production. But it was an appearance only, for the existence of this form of final exchange presupposed division of labour in production, a private enterprise production form, and generally reflected the stage of development of the production system.

What is evident in this part of Marx's methodological discussion, besides its lack of rigour, is an absence of any recognition of the crucial status that the interdependence and unity of production and exchange (circulation) would acquire in Marx's analysis of reproduction, the first stages of which emerged in the *Grundrisse* (see below, Chapter 5). The issue received rather light treatment here where Marx was not concerned immediately with its *operational* significance for capitalism.

From his discussion of the logical interdependence and inter-determination of the main operational categories of political economy, Marx drew two main conclusions. The categories had to be presented as a unity for they represented an organic whole and within this unity, production had to be recognised as the dominant and determining category. Marx made these conclusions clear in the following passage.

The conclusion we reach is not that production, distribution, exchange and consumption are identical, but that they all form the members of a totality, distinctions within a unity. Production predominates not only over itself ... but over the other moments as well .... A definite production thus determines a definite consumption, distribution and exchange as well as *definite relations between these different moments*. Admittedly, however, *in its one-sided form*, production is itself determined by the other moments .... Mutual interaction takes place between the different moments. This is the case with every organic whole. (G, 99.)

### 3.5 THE FATE OF THE "INTRODUCTION".

From the extant evidence, Marx never redrafted the methodological ideas developed in the "Introduction". Methodology remained implicit in his future writings on political economy. The issue raised in this Section is that of the lasting significance of the ideas adumbrated in 1857.

In the "Preface" to the 1859 *Critique*, Marx mentioned a "general introduction" which he had prepared. There being no evidence to the contrary, we proceed on the assumption that it was the above "Introduction" to which he referred. He wrote:

A general introduction, which I had drafted, is omitted, since on further consideration it seems to me confusing to anticipate results which still have to be substantiated .... (CPE, 19.)

The "results" that are mentioned were not detailed. We can suggest three aspects of the "results" in the "Introduction" which Marx may have had in mind.

First, he had developed the structural and operational interdependence of the main categories of political economy. Instead of stating these logical premises at the outset, he must have decided to build them up as an integral part of the "Economics". These "results" would then have been progressively "substantiated" in the context of the analysis they were to serve.

Secondly, the level of analysis in the "Introduction" was *phenomenal* only. The categories used were "anticipated" in the sense that they had not been shown to be rooted in their essences. Categorically, phenomena could not exist in isolation in Marx's analysis. Moreover, he could well have viewed his discussion as implying to his readers an uncritical acceptance of these bourgeois categories. This impression he would have been reluctant to risk conveying.

Thirdly, the "results" that it was capital which dominated the relations of production and production which dominated distribution, exchange and consumption had been *asserted* to be true. Marx had provided no argument to substantiate these assertions and consequently they were "anticipated" in the way suggested.

For these reasons, Marx probably felt that it was appropriate to omit the "Introduction" in the form drafted from the published work. In spite of this *suppression* of the piece, we would argue that the methodological ideas adumbrated were not *rejected*. The basic methodology discussed in Section 3.2 above was adhered to in the *Grundrisse* itself and in *Capital*. We can trace the logical process of synthesis in these works as additional categories are progressively included in the analysis to render it more complex and a closer approximation to the replica of capitalist reality. Within this logical synthesis, production relations were dominated by capital. These relations determined the *essential* nature of distribution which Marx linked to the phenomenal forms. Exchange (and circulation) and consumption were also treated as integral components of capitalist reproduction as a whole. This reproduction was represented as a unity of production, distribution, exchange and consumption and Marx's analysis of capitalism was set very clearly in this framework. The inherent contradictions of the system were exposed as failures of the unity involved, either qualitatively or quantitatively.

That Marx suppressed the "Introduction" in its drafted form did not, then, detract from his *use* of the methodological premises formulated therein. That this was the case will become more evident after we have outlined the analysis which he developed in the *Grundrisse* manuscripts. This outline is provided in the next two Chapters.

## NOTES

1. Although the discussion below was drafted before the appearance of Terrell Carver's erudite analysis of the "Introduction" in his *Karl Marx: Texts on Method*, (Blackwell, Oxford, 1975), I have modified it to take account of his arguments. A general debt of influence and guidance is thus acknowledged.
2. Quoted by Carver, *Karl Marx: Texts on Method*, p.114.
3. Cf. Carver, *Karl Marx: Texts on Method*, p.28.
4. *The Making of Marx's 'Capital'*, pp.79-80.
5. This discussion follows the second note in my "Two Notes on Marx and the Transformation Problem", *Economica*, 43:172, November 1976, pp.414 ff.
6. This was suggested in a letter to Lassalle of 22. February 1858 (*MEW*, 29, 550 f).
7. *G*, 88 ff. A more detailed analysis of the whole part is provided in Carver, *Karl Marx: Texts on Method*, pp.114 ff.

## CHAPTER 4

## FORMULATION OF THE THEORY OF SURPLUS VALUE AND PROFIT

4.1 INTRODUCTION TO THE *GRUNDRISSE*

Martin Nicolaus writes of the *Grundrisse* that:

It is a demanding text to read and a hazardous one to quote, since the context, the grammar and the very vocabulary raise doubts as to what Marx 'really' means in a given passage. Let the quoter, the excerptor, beware. Beneath these choppy waters are reefs to sink many a hasty cargo of interpretation. ("Foreword" to *G*, 25.)

The "cargo" of this Chapter and the next, while not hasty, is at risk for these reasons. The *Grundrisse* has a "labyrinthine nature"<sup>1</sup> comprising a multitude of "passageways", some of which are incomplete and lead nowhere.

We have worked through the "labyrinth" and our two Chapters dealing with the main text of the *Grundrisse* contain the core of theoretical analysis discovered. This core formed the first *experimental* formulation by Marx of his alternative paradigm for the political economy of capitalism. As we will proceed to show in subsequent Chapters, it was this analytical core which was developed further in the critico-historical context of the "Theories of surplus value" manuscript. The *Grundrisse* must therefore be interpreted as the foundation piece for *Capital*.

The *Grundrisse* analysis outlined below lacks analytical sophistication. It is rough hewn, but a coherent thread of logical development can be traced. Marx was often careless in his expression and interpretation does need care. In some places he was evidently quite confused about just what results he expected to flow from the often tedious discussion. We have avoided interpretation in these situations and taken an intellectual "side step" and proceeded. Similarly, we have ignored the many digressions which would have taken us away from our endeavour to reveal the core

analysis only. Overall, our Chapters do not represent a definitive study of the *Grundrisse*. They do, however, present an outline of the contribution the work made to the evolution of Marx's political economy with emphasis upon the theory of surplus value as the hub of the evolution.

We have placed the *Grundrisse* at the beginning of a *chronological* evolution of the theory of surplus value in Marx's political economy. Keith Tribe has rejected this chronological use of the *Grundrisse*.<sup>2</sup> It is our view that the development we are dealing with *was* chronological. It is important that this be recognised in order to overcome the very problem which Tribe discusses. There do exist in Marx's work what Tribe calls "*ersatz*" categories which may appear as logical substitutes in different stages of its evolution. The potential for interpreters of Marx to be misled by these categories, we argue, arises from the common practice of treating Marx's work as an *achronological whole*. That Marx did change his categories and their meaning and significance for his analyses can only be revealed by conscious recognition of the chronological context within which the categories occur. Our study serves to emphasise this feature of Marx's political economy.

#### 4.2 . OUTLINE OF THE *GRUNDRISSE* ANALYSES.

In the second of his *Grundrisse* plans for the "Economics", Marx posited five sections. For the analyses of the *Grundrisse* itself, it was the first two of these that became significant. (*G*, 227.) He planned to deal first with analysis at the level of simple circulation. This analysis would presuppose that commodities had been produced and the focus would be on exchange. In effect, this would portray capitalism as it appeared to a superficial observer. The second stage of the analysis



would then be concerned with the "internal structure of production", the production relations of the economy one stage removed from the appearances of simple circulation.

The *Grundrisse* drafting initially proceeded within this framework. Marx first analysed simple circulation phenomena. This discussion was recognised by him as merely preliminary and the second stage of the analysis soon emerged. Marx presented the transition in this way:

*Circulation ... does not carry within itself the principle of self-renewal. The moments of the latter are presupposed to it, not posited by it .... Circulation which appears as that which is immediately present on the surface of society, exists only in so far as it is constantly mediated .... Its immediate being is therefore pure semblance. It is the phenomenon of a process taking place behind it. (G, 254-5.)*

Continued circulation required that the production process renew the commodities to be exchanged. Production was, in this sense, prior to, more fundamental than, circulation. However, the two processes really presupposed each other under capitalism and were, in effect, a unity.

*We have ... reached the point of departure again, production which posits, creates exchange values; but this time production which presupposes circulation as a developed moment and which appears as a constant process, which posits circulation and constantly returns from it into itself in order to posit it anew .... Production itself is here no longer present in advance of its products, i.e. presupposed; it rather appears as simultaneously bringing forth these results; but it does not bring them forth, as in the first stage, as merely leading into circulation, but as simultaneously presupposing circulation .... (G, 255-6.)*

This passage set the stage for the analyses which were to follow. After analysing the production process of capital, Marx proceeded to consider the circulation process of capital. As we shall show, this latter analysis was an integrated extension of the production analysis and together they comprised the *reproduction* process with distribution mediating between them. Throughout, the emphasis was upon capital as *the* determining element of capitalism. This dominance of capital was reflected in the third and fourth plans posited in the *Grundrisse*

(G, 264 and 275). However, the format of these two plans did not influence Marx's analyses in the *Grundrisse* very much. Some of the topics did appear in that work, but some re-ordering and considerable extension would have been required to meet the demands of the first section, "Capital", of the revised plans.

#### 4.3 COMMODITIES AND VALUE IN SIMPLE CIRCULATION

In order that commodities could be exchanged, could circulate in a sequence of exchanges, Marx argued that their individual and subjective use values had to be complemented by a common "substance" which would render them comparable in exchange. The thing that all commodities had in common was that they had been produced by human labour. On this basis, exchange value could be expressed in terms of embodied labour, abstract homogeneous labour.

Under capitalism, value generation was a *social* process. With division of labour, producers were in an essential interdependence via exchange in order to meet their material needs. *Things* were produced and exchanged. The exchange of social labour that this implied was obscured.

It was clear to Marx at the outset that commodities did not *actually* exchange in terms of these embodied labour values. In the capitalist economy, exchange involved *prices* in monetary units. While he was not concerned, at this stage, with the quantitative relation between value and price, he did emphasise the *qualitative* differential.

It was clear to Marx that value and price were not immediately identical. The mediation of money between them, at least, was required. Price in simple circulation seemed to be merely the monetary expression of value. In later analysis, he would recognise that much more than mere money mediated between value and price.

Even at this elementary stage of the analysis, Marx was able to comprehend the contradiction of commodities being simultaneously exchange value and use value. The former was the consequence of production, the latter would be realised in consumption. The unity of the two was essential for capitalist reproduction. In order for this to be realised, stringent mediating conditions, both qualitative and quantitative, had to be present. The analysis of distribution and exchange (circulation) would provide details of these necessary conditions. It was clear, though, that the potential for the disruption of capitalist reproduction was considerable.

The realisation of commodities in exchange took the form of a translation of an ideal value based price into an actual quantity of money. Such realisation depended upon the existence of money backed effective demand for the commodity concerned. Circulation involved an organised system of exchanges in which every realisation of money was immediately followed by the use of this money in a further exchange. But, as Marx noted, the separation of purchase and sale by the mediation of money allowed a break in the circulation sequence to occur if money were hoarded. Reproduction depended on such breaks not occurring.

The vehicle of commodity circulation was money. Marx's analysis of money posited three functions for it in the capitalist economy.<sup>3</sup> Most obviously, it provided the price expression of exchange value and it acted as a medium of exchange. The ideal expression of money price had actually to be realised in circulation if reproduction was to ensue. Money acted as a mediating element in both of these functions.

The third function of money considered by Marx was money as monetary wealth. Money hoarded as wealth dropped out of circulation, stood aside from it as an independent material entity. Its relationship to circulation was now a negative one in that in this form it impeded the

circulation process and thus reproduction. However, in spite of the immediately negative implications of the decision to hoard in the absence of a credit system, Marx recognised that accumulated money had the *potential* to become capital. As he put it, the hoard "latently contains its quality as *capital*" (G, 216). For this potential to be realised, for the money to re-enter circulation, it had to be exchanged for means of production or advanced as wages. It is to the category capital and its relationship with wage labour that we turn in the next section.

#### 4.4 CAPITAL AND WAGE LABOUR

##### 4.4.1 THE APPEARANCES OF HARMONY IN EXCHANGE.

Historically, the hoarding process of money marked the initial precondition for the emergence of a capital based mode of production. It was a necessary precondition, not a sufficient one, for the wealth accumulated had to be used actively in circulation. A money hoard was not, in itself, capital in any sense.

Labour was viewed by Marx as both the source of all produced value and its measure. It followed that in order to realise itself as capital, at least part of the money hoard would have to be used to employ labour. This involved the advancing of wages to workers and, at first sight, appeared to be an innocuous process of exchange. Marx was soon to expose the relation between capital and labour as one of crass exploitation of the latter by the former.

One precondition for the existence of capitalist production was that "free" labour be available. Marx used "free" in the sense that labour had been separated from its objective conditions of production which had come under the command of those who possessed monetary wealth. The worker was

then "free" to offer his labour services to those in such possession. Failure to do so, of course, was tantamount to self-destruction. Survival depended now upon working with the means of production owned by others who, by virtue of such ownership initially appropriated the *total* value produced. The worker was thus *compelled* by way of his so-called "freedom" to produce *exchange* value rather than immediate use value for himself.

Marx did not, in this present context, mention the concept of *labour power*. His concern was with *appearances*, and what was apparent in the capital-labour relation was the exchange of money for living labour services. The basis of exchange was always the harmonious and equitable balancing of self-interests. As Marx put it, in exchange "each makes use of the other reciprocally as his means" (G, 243). Why should the exchange between the capitalist and the worker be any exception?

Further to this, it was possible also to see *profit* as a payment for the services which capital provided to the production process. In this way, profit and wages were the same sorts of income. What could possibly be wrong with such an arrangement?

Marx completely rejected such superficial arguments. The appearances of exchange were not the keys to an understanding of the essential nature of the capital-labour relation. This could only be revealed by an analysis of the relation in the context of *production*.

#### 4.4.2 BEYOND HARMONY TO PRODUCTION

In formulating his views on the capital-labour relation at the level of production analysis, Marx had to clarify initially his concept of capital in this context.

Marx argued that the conversion of a money hoard to capital involved its active use in furnishing inputs for the production process. These inputs comprised, superficially, either past embodied labour ('dead' labour) or present living labour. This view of capital left the concept more or less at the technological level. For Marx, the concept was to be drawn more widely. Capital was more than a thing, an interpretation that had not been pursued by received political economy.

The dimension of capital added by Marx was that capital was a *social-relational* category. Its existence presupposed a particular form of the *relations* of production. Capital and capitalists were effectively identical in Marx's view as one could not exist without the other. The operation of capital in the mode of production presupposed that "free" labour was available. Wage labour was, then, another consequence of capital. Capital engaged wage labour and the relationship between them formed the key element of the capitalist production process.

By paying wages to the workers, capital was able to mobilise living labour in the production process. The "free" worker presented himself to capital as a potential capacity to perform this living labour and so generate exchange value. Marx hinted at the concept of *labour power* here (*G*, 267) but did not use the term.

The relationship between wage labour in the abstract and capital involved two components. First, the worker was able to sell the use value of his labour to the capitalist at a price called the wage. This appeared to be a simple exchange transaction. Secondly, the capitalist obtained in this exchange a use value which took the form of the ability to create value. What was purchased was "the productive force which maintains and multiplies capital" (*G*, 274). It was the second component which had not been analysed by political economy. In it, Marx found his concept of labour power and his theory of surplus value.

Marx went on to explain how this duality in the capital-labour relation could, and generally would, involve a separation of the components in time. The purchase of the use value of the labour by the capitalist was quite a separate act from the utilisation implied in the second stage of the relation. Such a duality existed in ordinary commodity exchange also. The difference was, however, that ordinarily, the second stage would involve consumption which was an individual, physical act which stood outside of the circulation process. Thus it was of no *economic* concern.<sup>4</sup>

*Here, by contrast, the use value of that which is exchanged for money appears as a particular economic relation, and the specific utilisation of that which is exchanged for money forms the ultimate aim of both processes [stages of the exchange]. Therefore, this is already a distinction of form between the exchange of capital and labour, and simple exchange - two different processes. (G, 274-5.)*

Both stages of the capital-labour relation had the same objective, that of generating exchange value for the capitalist. But the two stages were quite different in their implications. Marx was prepared to grant that the first was effectively an exchange. By contrast, the second stage, *from which the first could not be separated*, was not an exchange transaction at all. Rather it involved exploitation, the nature of which Marx was soon to consider.

The nature of the capital-labour relation was developed further by Marx arguing that the value of labour as it appeared in the first component of the exchange, was not a function of the *use* to which the labour could be put. Just as was the case for a material commodity which could be reproduced, the value of the labour could be linked to the embodied labour value which had to be devoted to the reproduction of the labour. At its most fundamental level, the reproduction of the labour involved the restoration of "the capacity of bodily existence" (G, 282) of the worker to perform living labour.

From this point it was but a short step for Marx to devise the category *labour power*, the commodity which the capitalist actually had to pay for in his "exchange" with labour.

The labour objectified in that use value [which the worker embodies] is the objectified labour necessary bodily to maintain ... the general substance in which his labour power exists, i.e. the worker himself .... This, in general terms, is the measure of the amount of value, the sum of money, which he obtains in exchange [with the capitalist]. (G, 282-3.)

What the worker sold to the capitalist was a temporary disposition over his capacity to perform living labour, in exchange for the monetary (value) equivalent of the commodities necessary to maintain that capacity. This value was more or less fixed while the exercise of the living labour in extent and intensity was open ended.<sup>5</sup> Potentially, the capitalist could obtain value created by living labour in excess of the value he outlayed on the capacity to perform the labour. It was not to be very long before Marx used this extension of the argument as the basis for his theory of surplus value.

#### 4.5 CAPITAL IN PRODUCTION AND VALUE GENERATION.

Marx began his more detailed consideration of production with an analysis of the *physical* aspects of the process:

We now proceed to the relation of capital to labour as capital's use value. Labour is not only the *use value* which confronts capital, but, rather, it is *the use value* of capital itself. (G, 297.)

In isolation, the worker represented a potential capacity only, "a resource in the bodiliness of the worker" (G, 298). This capacity could only be turned into real activity through labour being commanded by capital. But it was only *living labour* which could activate capital.

Through the exchange with the worker, capital has appropriated labour itself; labour has become one of its moments, which now acts as a fructifying vitality upon its merely existent and hence dead objectivity. (G, 298.)



Raw materials were the object of the "form-positing purposive activity of labour" (G, 298), while instruments of labour were "the objective means which subjective activity inserts between itself as an object, as its conductor" (G, 298-9).

It should be emphasised that these *material* aspects of production had no *necessary* connection with the capital based mode of production. The exercise of living labour on passive objectified labour in the form of raw materials and instruments of labour was not necessarily *capitalist* production in Marx's view. *The objectified labour was not, in itself, capital.* Marx's point in analysing the material basis of production was to demonstrate "the simple production process itself ... as the self propelling *content* of capital." (G, 305). With this given, his concern was with *capitalist* production of commodities motivated by their exchange value.

The immanent motivation of capital in production, as Marx saw it, was to preserve and multiply itself both quantitatively and qualitatively.

As *use value* labour exists only for capital, and is itself the use value of capital, i.e. the mediating activity by means of which it valorises [verwertet] itself. Capital as that which reproduces and increases its value ... as a process, as the *process of valorisation* [Verwertungsprozess]. Therefore labour does not exist as a use value for the worker; for him it is ... not a *power productive of wealth* .... (G, 305.)<sup>6</sup>

Capital used labour as the means by which its motivation could be fulfilled. With the aid of the institution of private property, the capitalist could ensure that for the worker the labour process had quite different results. His use value, the generation of exchange value, could only be exercised *for capital*.

At this point, Marx began to consider the generated value result of the production process. His initial analysis lacked sophistication, e.g.:

the price of the product is equal to the costs of production, i.e. = to the sum of the prices of the commodities consumed in the process of production. (G, 313.)

This naive assertion did not allow for the motive of valorisation at all. The "prices of the commodities consumed" were argued to be the *values* of raw materials and that part of the instruments of labour destroyed in the production process; together with, simply, the "value of labour" (G, 313). Marx did not use the labour power category here, and its relation to the "value of labour" was not discussed. However, it was possibly only with the basic ability of capital to *reproduce* itself that Marx was concerned at this point, for he added:

the production process is a production process for capital *only* to the extent that it preserves itself in this process value .... The statement that the necessary price = the sum of prices of the costs of production is ... purely analytical. It is the presupposition of the production of capital itself. (G, 313.)

But, that capital should only *preserve* itself in the production process omitted its *economic rationale*. This Marx immediately recognised:

if the act of production is merely the reproduction of the value of capital, then it would have undergone a merely material but not an economic change, and such a simple preservation of its value contradicts its concept [Begriff]. (G316, emphasis added.)

It was in the very nature of capital to strive to multiply its value. (Marx's earlier discussion on greed and wealth, G, 222-4, was pertinent to this point.) Marx went so far as explicitly to exclude from *capitalist* production cases in which the object was not valorisation. (G, 317). A detailed analysis of the valorisation process had to be his next concern.

#### 4.6 CAPITAL AND THE GENERATION OF SURPLUS VALUE.

##### 4.6.1 THE QUALITATIVE THEORY OF SURPLUS VALUE

Marx began his analysis of valorisation with a simple arithmetical example which corresponded to the *appearances* of the capitalist economy.

If an original advance of capital was valued at 100 units of value and comprised *materially* raw material = 50 units, labour = 40 units, and instruments of labour consumed = 10 units, then the immediate apparent cost of production of the resulting commodities was 100 units of value.

Marx rejected this approach:

It is clear that it is not in fact this to which the economists refer when they speak of the determination of price by the cost of production. (*G*, 315.)

Rather, the cost of production would include some revenue for the capitalists, say 5 units of profit and 5 units of interest. The cost of production in the example would then be 110 units of value. But, *what was the origin of these 10 units of value added to the input cost?* As Marx put it, how could it be explained that "the production cost is ... greater than the cost of production"? (*G*, 315.)

Received opinion, Marx noted, was that *in circulation* the improved *use value* consequent on production was realised as a higher *exchange value*. This retreat by *some* political economists from production into circulation was pointless for only pre-existing value could be realised in exchange. Marx's interesting conclusion was that:

It is clear even empirically that if everyone sold for 10% too much, this is the same as if they all sold at the cost of production. *The surplus value [Mehrwert]* would then be purely nominal, artificial, a convention, an empty phrase. (*G*, 315, emphasis added.)

Here, for the first time, although in passing, Marx used the category *surplus value* to refer in general terms to non-labour income. The *origin* of this surplus value did not lie in circulation.

An alternative opinion espoused by some political economists was that surplus value had some *capitalist labour* equivalent. The capitalist was "paid for the *labour* of throwing the 100 thalers into the production process as capital, instead of eating them up." (*G*, 317). Implicit in this assertion was a further alternative pseudo-explanation of the surplus value, the "abstinence" theory. Marx's rhetorical retort to these

idea was: "But with what is he to be paid?" (G, 317). The *origin* issue had not been approached, and Marx concluded:

It is easy to understand how labour can increase use value; the difficulty is, how it can create exchange values greater than those with which it began. (G, 317-8.)

Marx gave the first hint of an explanation for this essential result of capitalist production in the following passage:

Suppose that the exchange value which capital pays the worker were an exact equivalent for the value which labour creates in the production process. In that case, an increase in the exchange value of the product would be impossible. (G, 318.)

Valorisation, then, depended upon a differential between what the worker was paid and what he created. More explicitly:

*The surplus value which capital has at the end of the production process ... signifies, expressed in accord with the general concept of exchange value, that the labour time objectified in the product ... is greater than that which was present in the original components of capital. This in turn is possible only if the labour objectified in the price of labour is smaller than the living labour time purchased with it. (G, 321, latter emphasis added.)*

For Marx, the "original components of capital" had thus far been argued as raw materials and instruments of labour consumed together with the value of labour itself. Foreshadowing a category of capital that had not been formulated so far, Marx noted that the first two of these components "remain unchanged as values" during production (G, 321) in spite of any *material* change involved. These components would later be classified as "constant capital" for this reason.

With respect to the third component the situation was quite different.

No matter that for the worker the exchange between capital and labour, whose result is the price of labour, is a simple exchange; as far as the capitalist is concerned, it has to be a not-exchange. He has to obtain more value than he gives. Looked at from the capitalists' side, the exchange must be only *apparent*; i.e. must belong to an economic category other than exchange, or capital as capital and labour as labour in opposition to it would be impossible. (G, 322.)

The problem posed, then, was to explain the differential between the value of labour employed and the labour value generated. Marx still did not apply the term *labour power*, but the conception was implied. In the exchange with capital, the worker gave up the power to use his living labour independently in return for a certain amount of objectified labour, the value of the "necessary" wage goods. The capitalist then exercised this living labour for as long as possible each working day, subject to some biological, institutional and, perhaps, social constraints. Thus the worker "exchanges value positing activity for a predetermined value, regardless of the result of his activity." (G, 323.)

The "predetermined value" involved here was the value of the commodity which the worker sold to the capitalist, viz. the value of his *labour power*. This value was basically that of the commodities needed by the worker to sustain his capacity to perform living labour from day to day, plus a margin for family survival in order that this capacity would continue to be available in the longer term.

Now if one day's living labour was, on average, required to meet this subsistence requirement then the valorisation process could not proceed. The *potential* for valorisation would only exist if less than one day's living labour was, on average, needed to produce the "necessary" wage goods. The surplus labour above this was the source of surplus value.

#### 4.6.2 SOME IMMEDIATE QUANTITATIVE ASPECTS OF SURPLUS VALUE GENERATION.

In quantitative terms, Marx saw capital as striving to generate the maximum possible surplus value. Any developments in the production process - changes in the nature and composition of material capital employed - would be directed towards this objective. Capital was motivated to

transcend any impediments to the maximum generation of surplus value during the development of the production process (G, 334-5). These were important aspects of the dialectical evolution of the capitalist society as Marx would later show. For the present, he analysed the effects on surplus value generation of such developments in a quite general way.

One consequence of development might be a progressive increase in the productivity of labour. This would cause a shift in the proportions of surplus labour and necessary labour in production and surplus value could be increased. Marx's arithmetic on this issue revealed that the multiple of the labour-productivity increase exceeded the multiple of the surplus value increase to an extent which depended upon the *initial* quantitative relation of surplus to necessary labour (G, 335 ff). The greater was this initial ratio, i.e. the more developed the forces of production were to begin with, the smaller would be the marginal additions to aggregate surplus value which flowed from any given increase in labour productivity. The following analysis illustrates in a more general way the arithmetical examples presented by Marx.<sup>7</sup> Let the total working day be fixed. The development of the forces of production proceeds such that, beginning from a given initial value of the ratio of surplus to necessary labour time, the productivity of labour in each successive period is double that in the previous period. Our concern, then, is to relate this productivity process to the ratios of the proportions of surplus labour in total output in successive periods. The following identity framework is used to establish this relationship:

$$\begin{aligned}
 S_t &\equiv 1 - N_t \\
 &\equiv 1 - \frac{N_1}{v_t} \\
 &\equiv \frac{v_t - N_1}{v_t}
 \end{aligned}$$

From this we argue that:

$$\frac{S_t}{S_{t-1}} = \frac{(v_t - N_1)}{(v_{t-1} - N_1)} \cdot \frac{v_{t-1}}{v_t}$$

where:  $N_t$  = proportion of necessary labour time in output in period  $t$ .

$S_t$  = proportion of surplus labour time in output in period  $t$

$v_t$  = multiplier of labour productivity in period  $t$  relative to productivity in period 1.

$$v_1 = 1.$$

With labour productivity doubling each period,

$$\frac{v_{t-1}}{v_t} = \frac{1}{2}$$

$$\frac{S_t}{S_{t-1}} = \frac{1}{2} \cdot \frac{(v_t - N_1)}{(v_{t-1} - N_1)}$$

The effects of the progressive doubling of labour productivity on incremental increases in the proportion of surplus value in output are illustrated in Table 4.1 beginning from two different initial values of the ratio of surplus to necessary labour time:

$$\text{Case A : } \frac{S_1}{N_1} = \frac{1}{9} \therefore N_1 = 0.9$$

$$\text{Case B : } \frac{S_1}{N_1} = \frac{1}{4} \therefore N_1 = 0.8$$

Case B is, then, an economy beginning from a higher stage of productivity development than in Case A.

This analysis establishes that the potential for additions to aggregate surplus value decreases with the stage of development of productivity already reached where the additions are to come from further improvements in productivity alone. There is thus an immanent constraint on the capitalist objective of maximising aggregate surplus value to the extent that it relies upon this approach.

t	$\frac{S_t}{S_{t-1}}$	$\left(\frac{S_t}{S_{t-1}}\right)_A$	$\left(\frac{S_t}{S_{t-1}}\right)_B$
2	$\frac{1}{2} \cdot \frac{(2 - N_1)}{(1 - N_1)}$	5.500	3.000
3	$\frac{1}{2} \cdot \frac{(4 - N_1)}{(2 - N_1)}$	1.409	1.333
4	$\frac{1}{2} \cdot \frac{(8 - N_1)}{(4 - N_1)}$	1.145	1.125
5	$\frac{1}{2} \cdot \frac{(16 - N_1)}{(8 - N_1)}$	1.063	1.055
6	$\frac{1}{2} \cdot \frac{(32 - N_1)}{(16 - N_1)}$	1.0298	1.0263
...			
10	$\frac{1}{2} \cdot \frac{(512 - N_1)}{(256 - N_1)}$	1.0018	1.0016

TABLE 4.1



Another feature of development might be a change in the length of the working day. In the previous case, the length of the working day was held constant. The change in labour productivity brought about a *relative* change in surplus value generated. An increase in the working day, with productivity constant, would also increase the surplus value generated in any period. Marx argued this to be an *absolute* increase in surplus value. The distinction between relative and absolute surplus value was to become an integral part of Marx's theory of surplus value and its applications.

In analysing the effects of capital accumulation on the generation of surplus value, Marx noted that they depended upon which components of the capital stock were increased and in what quantitative relativity. It was in the course of this analysis that Marx applied for the first time his distinction between capital which acted as an "invariable value", a "constant value" (*G*, 377-8), and capital which was used to employ labour. He soon made the distinction between constant capital and variable capital clear (*G*, 389) and recognised from that point onwards that for the *analysis of production* it was *this* dichotomy which was appropriate. Subsequent analyses in which the fixed-circulating capital dichotomy was retained were dealing with the post-production circulation effects on surplus value generation. For this purpose, the turnover time basis of the latter dichotomy was appropriate.<sup>8</sup>

The capital-accumulation effects on surplus value were not analysed in much detail at this stage of the *Grundrisse*. Indeed, Marx did not seem to have clarified the connotations of the "rate of return" on capital idea to any great extent. He was aware that two such rates of return would be relevant, the general rate of profits, in which aggregate surplus value was related to aggregate capital-in-general, and the rate of yielding surplus value in relation to productive (labour employing) capital only,

later to be called the rate of surplus value. The relationship between these two rates was suggested in the following passage:

If capitals whose component parts are in different relations, including therefore their forces of production, nevertheless yield the same percentages on total capital, then the real surplus value has to be very different in the different branches. (G, 395.)

Marx used a simple example to make this relationship clear. A capital of 100 units comprising 50 constant and 50 variable capital units must yield 50 percent on its variable component in order to return 25 percent on total capital. By contrast, with a composition of 75 constant and 25 variable, the yield on variable capital would have to be 100 percent if a return of 25 percent on total capital was required.

Now while this analysis was correct as far as it went, Marx did not clarify the different significances that it would have in facets of his analysis of capitalism. The relationship between these two rates of return, he would later recognise, concerned both the value-price articulation in a situation of competition between capitals in different sectors of production and the dynamics of the rate of profits in the analysis of capital accumulation. Marx's initial thoughts on the first of these two issues are considered in the next section of this Chapter. The latter issue will be taken up in the next Chapter.

#### 4.7 CAPITAL, SURPLUS VALUE AND PROFIT.

Marx had established that surplus value was generated in production. This was so because of the special social relations of production that existed in the capitalist economy, especially that relation which allowed the capitalist to appropriate *all* produced value initially by virtue of his property in the means of production. Now as far as the capitalist was concerned, it was *profit* that came from advancing capital in production. Marx's surplus value was not an empirical category in this sense.

The transformation of surplus value into the form of profit, this method by which capital calculates surplus value, is necessary from the standpoint of capital, regardless of how much it rests on an illusion about the nature of surplus value, or rather veils this nature. (*G*, 767.)

Marx intended to lift the "veil" and dispel the "illusion" in order to expose what he saw as the real origin and nature of surplus value, the basis of capitalist non-labour incomes. The resulting analysis was to provide the foundation for his prognoses about the inevitable fate of capitalism.

In the *Grundrisse*, most of the analysis of surplus value and profit was argued around "capital-in-general". That is, Marx abstracted from the fact that the economy comprised a multitude of different sectors of production involving capitals of varying compositions. But, as Marx made clear, "Capital-in-general" was more than a convenient abstraction for analytical purposes. It was a way of looking at capital which had some substance in reality but which had not been used to appropriate advantage in classical political economy.

*Capital in general*, as distinct from particular capitals, does indeed appear (1) *only as an abstraction*; not an arbitrary abstraction, but an abstraction which grasps the specific characteristics which distinguish capital from all other forms of wealth - or modes in which (social) production develops .... (2) however, capital in general as *distinct* from the particular real capitals, is itself a *real* existence. This is recognised by ordinary economics, even if it is not *understood*, and forms a very important moment of its doctrine of equilibrations etc. For example, capital in this *general form*, although belonging to individual capitalists, in its *elemental form* as capital, forms the capital which accumulates in the banks or is distributed through them, and, as Ricardo says, so admirably distributes itself in accordance with the needs of production. (*G*, 449.)

Now as we saw in Chapter 2, Section 2.1, above, this initial emphasis upon "capital-in-general" was in accordance with Marx's plans for the "Economics". Competition of particular capitals was to be treated in a subsequent "section" or "chapter". This arrangement meant that at the present stage some of the more complex aspects of the surplus value-profit, and the associated value-price relationships could be by-passed.

However, as we shall show, he was still aware of some of the ramifications of the analysis beyond "capital-in-general" and these emerged in the *Grundrisse*.

In the following passage, Marx summarised his immediate concerns in this issue:

Profit as we still regard it here, i.e. as the profit of capital *as such*, not of an individual capital at the expense of another, but rather as the *profit of the capitalist class*, concretely expressed, *can never be greater than the sum of the surplus value*. As a sum, it is the sum of the surplus value ... as a proportion relative to the total value of the capital, instead of to that part of it whose value really grows, i.e. is exchanged for living labour. *In its immediate form, profit is nothing but the sum of the surplus value expressed as a proportion of the total value of the capital.* (G, 767.)

Surplus value acquired the status of profit simply by being related to *total* capital. What was not so evident was that it had been generated, in effect, by only one part of the total capital, that advanced to purchase labour power.

This view of the surplus value-profit articulation did not carry Marx very far in his analysis. He recognised that once different sectors of production were considered, the dimensions of the issue increased. The different capitals would have varying ratios of constant and variable capital and therefore different rates of profit would appear on total capital in each sector. This would arise because only the variable part of capital generated surplus value and its proportion in capital employed varied. With the assumption of capital mobility induced by competition this situation could only be sustained in the short run. Adjustment towards a uniform rate of profits was assumed by Marx to be an axiom of the capitalist economy.

The general idea of this problem was first broached in the following simple arithmetical example (G, 435). Five branches of production were posited each having the *immediate* rates of profit on total capital shown as percentages.

A	B	C	D	E
15	12	10	8	5

The average rate of profits was thus 10 percent and long-run adjustment would ensure that this rate was returned in each branch. It was clear to Marx that some redistribution of the surplus value *vis-a-vis* its pattern of generation would be required.

A *general rate of profit* as such is possible only if ... a part of the surplus value ... is transferred from one capitalist to another .... The capitalist class thus to a certain extent distributes the total surplus value so that, to a certain degree, it [shares in it] evenly in accordance with the *size* of its capital, instead of in accordance with the surplus values actually created by the capitals in the various branches of business. (G, 435-6.)

What he was not clear about was the *mechanism* through which this redistribution would take place.

Initially he recognised that it would involve the prices as which the produced commodities were sold. These prices would, in some way yet to be determined, diverge from the values of the commodities.

This [general rate of profits] is realised [*realisiert*] by means of the relation of prices in the different branches of business; which fall *below* the *value* in some, rise *above* it in others. This makes it seem as if an equal sum of capital in unequal branches of business created *equal* ... surplus value. (G, 436.)

Later in the *Grundrisse* manuscripts, Marx argued that profit was a *transformed* manifestation of surplus value because it was realised in exchange by means of prices which were not proportional to values. The analytical process by which this transformation may be explained was hinted at thus:

Presupposing the same [rate of] surplus value, *the same surplus labour in proportion to necessary labour*, then, the *rate of profit* depends on the relation between the part of capital exchanged for living labour and the part existing in the form of raw material and means of production. (G, 747.)

The ideas of a uniform rate of surplus value and a varying organic composition of capital were to be two key components in Marx's later attempts to resolve analytically the surplus value-profit transformation.

In the *Grundrisse* the argument was carried no further than this.

What was missing in particular in the present context was the concept of the *price of production*. This transformed value was such that a commodity, when sold, would yield the general rate of profits on the total capital involved in its production regardless of its constant-variable composition. Now Marx realised that the "market" price that he sought would be different from value, but he could not demonstrate that this difference would be a *systematic* one. He seemed to be aware of the problem involved in the following passage:

... price ... appears ... merely as a formal modification of value; as value expressed in money; but the magnitude of this price is presupposed in the production process of capital. Capital thereby appears as a determinant of price, so that price is determined by the advances made by capital + the surplus labour realised by it in the product. We shall see later that price, on the contrary, appears as determining profit. And, while here the total *real* production costs appear as determining price, price appears later as determining the production costs. So as to impose the inherent laws of capital upon it as external necessity, competition seemingly turns all of them over. *Inverts them.* (G, 761.)

Prices and the general rate of profits were, Marx argued here, mutually interdependent. The competition between capitals inverted the apparent relationship of costs, including the rate of profits, to price. As his later analyses of the transformation of surplus value to profit and associated transformation of values to prices of production would show, this simultaneous methodology was the basis of solving the problem.

It is interesting to note that Marx was aware in the *Grundrisse* that when considering price formation, the *inputs* to production would already be in *price* terms. This is evident in the following passage:

In so far as capital obtains raw material, instrument, labour, through exchange, ... *its elements are themselves already present in the form of prices* .... The comparison of the market price of its product with the prices of its elements then becomes decisive for it. (G, 762, emphasis added.)

Had Marx remembered the principle posited here and applied it in his ultimate analysis of the "transformation problem", then this analysis

might have been less controversial.<sup>9</sup>

One more feature of the *Grundrisse* analyses that is worth noting is that they contained virtually no consideration of non-labour income forms other than profit. Marx viewed profit as his most immediate concern because, according to his plan, he was only dealing with capital-in-general. The analysis of interest concerned capital as credit and the analysis of rent concerned landed property. Both of these topics were projected for future treatment in their turn. As we have shown in Chapter 2 above, revisions of the plan meant that these topics did appear in the preparations for *Capital*, with rent receiving much more attention than interest. We shall return to these aspects of Marx's work in Chapter 8 below.

## NOTES

1. Tribe, "Remarks on the Theoretical Significance of Marx's *Grundrisse*", p.182.
2. "Remarks on the Theoretical Significance of Marx's *Grundrisse*", pp.182 f.
3. Rosdolsky, *The Making of Marx's 'Capital'*, chapters 6, 7, 8 provides a much more detailed analysis of money in the *Grundrisse*.
4. Marx did not note here that commodities may be destined for unproductive *or* productive consumption. The latter *was* part of the circulation process and was thus *economically* significant. This does not affect the point being made, though, for the consumption was of no *value-generating* significance. It was *this* significance with which Marx was actually concerned here.
5. Qualified by biological, institutional and, perhaps, social constraints.
6. In translating *Verwertung*, Nicolaus has used *realisation*. This is perhaps too narrow in its meaning and can be confused with *Realisiert*. I have therefore followed Pete Burgess, the translator of Rosdolsky's *The Making of Marx's 'Capital'*, and used *valorisation* and *realisation* respectively.
7. This illustration was devised by Phillip O'Hara in his "A Critical Analysis of Marx's Theory of Crisis", unpublished B.A. (Honours) thesis, Murdoch University, Western Australia, 1978, pp.35-6.
8. Marx's continued use of the fixed-circulating dichotomy of capital did not represent a confusion as Keith Tribe has suggested, cf. "Remarks on the Theoretical Significance of Marx's *Grundrisse*", pp.191 ff.
9. The issue of value-price of production articulation presents more complex analytical problems than this, though. It has been shown by Anwar Shaikh (although Heinz Kurz asserts that the procedure was first suggested by A. Brody in *Proportions, Prices and Planning*, (North-Holland, London, 1970), p.90: see the reference to Kurz's article below in this footnote) that Marx's own solution of the "problem" may be interpreted as the first step in an iterative procedure from which the above principle emerges: see "Marx's Theory of Value and the 'Transformation Problem'," in J. Schwartz (ed.), *The Subtle Anatomy of Capitalism*, (Goodyear, Santa Monica, California, 1977). However, Heinz Kurz has now revealed that there is the additional problem to be resolved that the *composition of constant capital* in the different sectors of production may vary, generating a variety of sets of prices of production. It is Kurz's view that:

If all we know are the value aggregates of the constant capitals, it is impossible even to begin to "transform" values into prices since the same value system is compatible with an infinite number of quantity systems and thus an infinite number of price systems. Hence Shaikh's (and Marx's) approach



only makes sense if it is implicitly assumed that the commodity composition of the different constant capitals are identical. Marx's value analysis prevents a proper treatment of the "transformation problem", since it merges the different elements of a sector's constant capital into a single magnitude.

See: "Sraffa After Marx", *Australian Economic Papers*, 18:32, June 1979, p.55 n3. Geoffrey Harcourt and Prue Kerr refer to Kurz's point and go on to argue that the most general solution to the "problem" is that provided by Pierangelo Garegnani in "On the Theory of Distribution and Value in Marx and the Classical Economists", Section VI: see Harcourt and Kerr, "On Some Central Issues in Ian Steedman's *Marx After Sraffa*", mimeograph, Adelaide, 1979, pp.13-14; a revised version of the paper first presented at the Seventh Conference of Economists, Macquarie University, Sydney, August 1978.

## CHAPTER 5

## SURPLUS VALUE AND THE "LAWS" OF MOTION" OF CAPITALISM.

## 5.1 INTRODUCTION TO MARX'S INTERPRETATION OF THE "MOTION" OF CAPITALISM.

Prior to his formulation of the principle of surplus value in the *Grundrisse*, Marx had read of the dynamic nature of the capitalist economy. His attention was drawn to the idea of capitalism's "motion" through historical time from his earliest readings in political economy. This "motion" was presented in Adam Smith's *Wealth of Nations* as the general principle of economic growth and development. In Ricardo's *Principles*, the analysis of "motion" was more formalised with the relationship between growth and distribution receiving attention. For Ricardo, the falling rate of profits was linked to the possible stationary-state fate of capitalism. The Physiocrats had also made "motion" explicit, but in a quite different sense from that in Smith's and Ricardo's work. Physiocratic concern was to present the interdependence between expenditures and production in the different sectors of the economy and the consequent money and commodity flows required to sustain the system. In all of these analyses of "motion", a key role was implied or explicated for capital and the economic surplus. It was Marx's belief, though, that the role was not adequately comprehended by these writers.

This notion of the historical "motion" inherent in the capitalist system was linked by Marx to the philosophical principles of dialectical analysis which he had absorbed from Hegel's work. Marx substituted a *materialist* dialectic for Hegel's idealism, and, instead of the metaphysical "Idea" being the subject of historical "motion", *man* was given this role. It was this dialectical materialism which provided the

philosophical foundations for Marx's ideas about the "laws of motion" as they applied to the political economy of capitalism.

Marx (with Engels) approached this facet of his work in most detail in the *German Ideology* of 1845-6, especially in Section I which was given the title "Feuerbach. Opposition of Materialist and Idealist Outlooks" (*CW*, 5, 27 ff). The following passage from the work reflects the philosophical methodology which Marx brought to his critique of political economy:

In direct contrast to German philosophy which descends from heaven to earth, here it is a matter of ascending from earth to heaven. That is to say, not of setting out from what men say, imagine, conceive, nor from men as narrated, thought of, imagined, conceived, in order to arrive at men in the flesh; but setting out from real, active men, and on the basis of their real life-process demonstrating the development of the ideological reflexes and echoes of this life process. The phantoms formed in the brains of men are also, necessarily, sublimates of their material life process, which is empirically verifiable and bound to material premises .... It is not consciousness that determines life, but life that determines consciousness. (*CW*, 5, 36-7.)<sup>1</sup>

Political economy was one of the fundamental "ideological reflexes and echoes of this life process" and expressions of man's "consciousness" of his life. Thus, an understanding of man's current social system could only come, in Marx's view, from a thorough critical comprehension of the political economy that man had generated in order to convey the nature of the system. For Marx, received political economy embodied a "false consciousness" which should be exposed.

Against this philosophical background we proceed to consider the *dimensions* of the "laws of motion" of capitalism that Marx adumbrated in the *Grundrisse*. He had undertaken an analysis of examples of the "motion" of British capitalism prior to the *Grundrisse* drafting. These analyses for the *Neue Rheinische Zeitung Revue* dated from the early 1850s and dealt essentially with "motion" at the *phenomenal* level.<sup>2</sup>

Theoretically they were constrained by received political economy at this stage and little critical penetration to the *essential nature* of "motion"

in capitalism was evident. The abstract, generalised analysis emerged as a consequence of the formulation and application of the principle of surplus value in the *Grundrisse*. This is established in this chapter and is further explored in the context of the critical history in Chapters 11, 12 and 13 below.

For Marx, the concept of the "motion" of the capitalist economy arose by virtue of the nature of capital itself. Capital's involvement in production was dynamic in the sense that time was explicit in any analysis of the issue. Man's productive activity took place in historical time. Indeed, this activity was, in Marx's view, the very basis for the path of history more generally considered. In the case of the capitalist mode of production, the root of its historical progress was to be found in the immanent process by which capital preserved and expanded itself by the generation and appropriation of surplus value (*G*, 745).

The "motion" of capitalism, then, was engendered by capital's desire to maximise the production of value and surplus value. This desire could only be achieved through an effective system of exchanges in which produced value and surplus value were *realised*. Part of this realised value was for replacement capital formation while the remainder was surplus value, much of which could be saved and devoted to the formation of additional capital. In Marx's view, the desire to accumulate capital, besides flowing from the avarice of the capitalists, also arose in the process of survival by *individual* capitalists. Competition between capitalists generated a constant search for cheaper production methods. The dominant means to achieve this was through qualitative changes in the additions to capital, that is, through embodied technological change.

*But*, Marx reasoned, the "motion" of capital through time was unlikely to be disruption free. Impediments to the "motion" were an immanent part of the "motion" itself in that the disruptive barriers which capitalism

faced in production and circulation were a consequence of capital accumulation. Capitalism would, for a time, be able successfully to transcend these barriers to its progress as they arose. There was, though, a limit to the life of capitalism and ultimately the continuing disruptions would lead in some way to the transcendence of the system itself.

Thus, for Marx, the "motion" of capitalism was simultaneously self-perpetuating *and* self-destructive. In striving to sustain themselves as individuals, capitalists were inevitably bringing about their own collective demise. This fate of capitalism was discussed by Marx under the rubric of the "laws of motion" of the system. The components of these "laws" were, as adumbrated in the *Grundrisse*, the following. First, there was the possibility that, *as an ideal*, capitalism could reproduce itself without impediment through appropriate qualitative and quantitative integration of production and circulation. This motion led Marx to his endeavours to formulate the reproduction schema. Secondly, however, he was concerned to refute "Say's Law" that general overproduction was not possible under capitalism by revealing the inherent impediments to the *operation* of the reproduction process, especially as they affected circulation. Thirdly, Marx considered the tendency of the rate of profits to fall to be an important and necessary feature of capitalist production. His analysis revealed it to be associated with the technological changes embodied in capital accumulation. Fourthly, the consequence of capitalism's reproduction problems and the falling rate of profits would be a crisis of depressed economic activity which would lead inevitably to the replacement of capitalism by an alternative mode of production.

Now in the *Grundrisse*, none of these dimensions of capitalism's motion received very complete treatment. The arguments sketched in were largely experimental and impressionistic as we shall show in the subsequent Sections of this Chapter. Especially did this apply to the discussion of

of the crisis. This phenomenon was, for Marx, the culmination and ultimate manifestation of the "motion" and its analysis would have to involve the integration of the other dimensions into a coherent relationship. The present analysis fell well short of this requirement.

## 5.2 THE UNITY OF THE PRODUCTION AND CIRCULATION PROCESSES.

As we saw in Chapter 3, Section 3.4 above, when Marx drafted his methodological "Introduction" to the *Grundrisse* he treated rather lightly the relationship between production and circulation. When it came to the analysis of the "laws of motion" of capitalism, the simple logic applied earlier was no longer adequate. The relationship had to be analysed more thoroughly in order to ascertain its operational significance in the process of capitalist reproduction.

In the second of the *Grundrisse* plans for his "Economics" (G, 227), Marx hinted at the need for an operational articulation between production and circulation in his analysis. Immediately prior to the formulation of this plan, his focus had been upon the concept of *simple circulation*. Production was not directly relevant to this level of analysis and it received little explicit attention. Value had its *origin* in production, but for this analysis it was taken as given. It did have to be *realised* in exchange, though, and this implied that production of value was necessarily interdependent with the exchange of commodities under capitalism. The former was the fundamental *raison d'etre* of that mode of production while the latter mediated in realising it. Marx made the point initially in this way when describing the first two sections of his projected work:

In this first section, where exchange values, money, prices are looked at, commodities appear as already present .... We know that they express aspects of social production, but the latter itself

is the precondition .... [Exchange of commodities] ... presents itself ... on the surface of developed society as the directly available world of commodities. But by itself, it points beyond itself towards the economic relations which are posited *as relations of production*. The internal structure of production therefore forms the second section .... (G, 227.)

At the opening of the *Grundrisse*, Marx was concerned with simple circulation of commodities already in existence. As soon as he began to consider money in its form as wealth (G, 215 ff) he turned his attention to accumulation and capital formation. This provided the initial link between circulation and production at the analytical level. "In the case of money as *capital*", Marx wrote, "money itself is posited

... as ... an *instrument of production*, since circulation no longer appears in its primitive simplicity, as quantitative exchange, but as a process of production, as a real metabolism .... Production is not only concerned with simple determination of prices ... but with the creation of exchange values .... (G, 217.)

Money as capital interacted with wage labour as the basis of capitalist production (G, 223, 225).

Once the analysis went beyond presupposing that value existed, the circulation of that value comprised its generation as well. Thus:

... exchange value itself ... has to appear as a presupposition posited by circulation itself .... The process of circulation must also and equally appear as the process of the production of exchange values. (G, 235.)

And Marx continued:

With circulation, the determined price is presupposed, and circulation as money posits it only formally. The *determinateness* of exchange value itself ... must now itself appear as an act of circulation. Posited in this way, exchange value is *capital*, and circulation is posited at the same time as an act of production. (G, 235.)

After this, Marx's references to the relation between production and circulation became increasingly significant in his analyses. In the "Chapter on Capital" (G, 239 ff), where capital in production was explicitly considered, he emphasised repeatedly that this process was to be treated as a unity with circulation. Indeed, Michael Lebowitz goes so

far as to assert that "One of the clearest characteristics of the *Grundrisse* is the extent to which Marx developed the concept of capital as a unity containing two elements: production and circulation."<sup>3</sup>

Marx noted that circulation *per se* could not support itself as a continuous facet of the "motion" of capitalism. The "end" of circulation was the exercise of a final commodity's use value by a consumer. Once this occurred, more commodities had to enter into exchange for circulation to proceed. But:

It cannot ignite itself anew through its own resources. *Circulation therefore does not carry within itself the principle of self renewal. The moments of the latter are presupposed to it, not posited by it. Commodities constantly have to be thrown into it anew from the outside, like fuel into a fire. (G, 254-5.)*

Thus, while the production of value required the mediation of circulation and realisation of value, circulation itself was a surface manifestation of capitalist "motion" which required the mediation of production in order to be sustained (G, 255).

The necessary unity of production and circulation that this reasoning implied was initially expressed in the following passage:

We have ... reached the point of departure again, *production* which posits, creates exchange values; but this time, *production which presupposes circulation as a developed moment* and which appears as a constant process, which posits circulation and constantly returns from it into itself in order to posit it anew. (G, 255.)

Much later in the manuscripts, Marx related the unity more explicitly to the idea of capitalist "motion":

The total production process of capital includes both the circulation process proper and the actual production process. These form the two great sections of its movement, which appears as the totality of these two processes .... And the whole of the movement appears as unity of labour time and circulation time, as unity of production and circulation. This unity itself is motion, process. Capital appears as this unity-in-process of production and circulation .... (G, 620, cf. 520.)

Now it was in this necessary unity that the most fundamental contradiction of the capitalist mode of production was to be found (G, 415). In order for the renewal of capitalist production to proceed, that is, for



capital to valorise itself, there had to exist a specific qualitative and quantitative relationship between production and circulation. However, the essential nature of capital was such that it strived for the maximisation of production of value without due regard for this specific relationship. Production decisions were taken by individual capitalists with no concern for the ability of the circulation process to realise the aggregate of values which resulted. Marx's analysis of this negative aspect of the production-circulation unity is considered in more detail in subsequent Sections of this Chapter.

### 5.3 THE CIRCULATION PROCESS OF CAPITAL AND ITS IMMANENT CONTRADICTIONS.

In the context of his developing awareness of the crucial interdependence of production and circulation, Marx considered the phenomenon of circulation in some detail in isolation from production. This was but the *first stage* in the formulation of the "laws of motion" of capitalism in the *Grundrisse*, for the analysis of circulation could only be separated artificially from the other dimensions of "motion".

An immediate consequence of the complexity of post-production exchanges in capitalism was the need to rely on money as a means of circulation. Money facilitated circulation by acting as a universal and homogeneous manifestation of exchange value. It was not constrained in *its* circulation by being embodied in any particular use-value form (G, 145-6).

The exchange value of a thing is nothing other than the quantitatively specific expression of its capacity for serving as a *medium of exchange*. In money the *medium of exchange* becomes a thing, or, the exchange value of the thing achieves an independent existence apart from the thing. (G, 199-200.)

For Marx, the consequence of the need for capitalism to rely upon a complex circulation process, and the need for that circulation to be

facilitated by money as a separate entity, was the existence of certain immanent contradictions which had the potential to disrupt the system's historical progress. Especially were these contradictions likely to impede the complete and continuous valorisation of capital through circulation. The immediate result of production was a commodity with an *ideal* value, part of which was transferred from capital inputs and part of which was surplus value added by labour. The valorisation process required that this ideal value be converted to a money form through exchange such that subsequent exchanges could be undertaken to replace and expand capital.

Valorisation comprised three components in an essential unity. First, by means of "exchange" with labour, capital was able to command living labour in production to an extent which preserved the value of capital advanced in employing it. Secondly, because of the special form of the capital-labour relationship, the capitalist could command living labour services beyond those needed for the capital replacement. The surplus labour was potentially available to expand capital. Thirdly, the *material* result of production, the commodity with use value and exchange value, which embodied the valorisation potential, had to be realised in money form through exchange. Marx commented upon these three components:

The three processes of which capital forms the unity are external; they are separate in time and space. As such, the transition from one into the other, i.e. their unity as regards the individual capitalists, is accidental. (*G*, 403.)

The completion of the valorisation process, and thus the on-going preservation of the capitalist mode of production, depended upon *chance circumstances*. The potential for failure was, as a consequence, quite evident to Marx.

Marx went on to elaborate upon the potential impediments in the circulation process. It was, most essentially, the *dual nature* of the commodity which presented the problem (*G*, 147-8). The commodity was a

unity of exchange value and use value, the latter being a *necessary* precondition for the *realisation* of the former. Use value was not a *sufficient* condition for the realisation of exchange value because such use value, *and* the needs for it to satisfy, could exist without exchange proceeding. As Marx put it:

... whether or not the commodity is transposable into money, whether or not it can be exchanged for money, whether its exchange value can be posited for it - this depends on circumstances which initially have nothing to do with it as exchange value and are independent of that. (*G*, 147.)

For as he went on to recognise, "ineffective, *non-paying needs*, i.e. a need which does not itself possess a commodity or money to give in exchange" (*G*, 404) were not relevant in the valorisation of capital. Not only did the *qualitative* demand pattern have to be appropriate, but also it had to be *quantitatively effective* in its relationship to actual production. Thus demand, which originated in the incomes generated by production, was a crucial factor in the valorisation process. Any impediment to the exercise of potential demand would leave unrealised part of the value and surplus value produced with consequent disruption to capitalist reproduction and growth.

Capitalism faced, then, the potential hazard that it would not realise in circulation the full value of all commodities produced in any particular period of time. The key to understanding this problem was, Marx argued, that money separated the act of sale from the act of purchase (*G*, 148, 197-8). What money did, in its capacity as the medium of exchange, was to facilitate the exchange process. But once one particular exchange was completed, money provided its holder with the option of not proceeding to a subsequent exchange. That is, money became an end in itself and was able to be held as a store of value (*G*, 215-6). In this sense money had the ability to *impede* circulation as an on-going sequence of exchanges. "Thus" wrote Marx, "already in the quality of money as a medium, in the

splitting of exchange into two acts, there lies the germ of crises, or at least their possibility ... " (G, 198).

The capitalist form of circulation, in which money allowed the separation of purchase and sale, would, Marx argued, initiate the rise of a merchant estate (*Kaufmannsstand*) which would mediate in the purchase-sale sequence (G, 148-9, 200). As a result, the circulation process became detached from production to some extent and an added potential for disruption was introduced through the increased complexity of getting the commodity from production to its ultimate consumer. Marx made the point in the following passage.

This doubling of exchange - exchange for the sake of consumption and exchange for exchange - gives rise to a new disproportion. ... Circulation, i.e. exchange within the mercantile estate, and the point at which circulation ends, i.e. exchange between the mercantile estate and the consumers - as much as they must ultimately condition one another - are determined by quite different laws and motives, and can enter into the most acute contradiction with one another. The possibility of commercial crises is already contained in this separation. But since production works directly for commerce and only indirectly for consumption, it must not only create but also and equally be seized by this incongruity between commerce and exchange for consumption. (G, 149.)

Marx did not elaborate to any great extent upon the ramifications of the merchant estate, but the *principle* implied was quite clear. Here was a capitalist development designed, as was the case with money, to improve the process of circulation. In this case the motive was the gains which would accrue to the merchants. The significant consequence as Marx saw it was that the development also engendered further immanent contradictions within the process which could disrupt its operation. This accentuated the potential instability in capitalist "motion".

Marx also mentioned in passing that *credit* could have some effect upon the dynamics of circulation. It was his view that one means by which capital endeavoured to ensure adequate circulation for full valorisation was through the development of a *credit system* (G, 416).

It thus appears as a matter of chance for production based on

capital whether or not its essential condition, the continuity of the different processes which constitute its process as a whole, is actually brought about. The suspension of this chance element by capital itself is *credit*. ... Which is why *credit* in any developed form appears in no earlier mode of production. (G, 535.)

At this stage, though, Marx wrote little more than this on the subject. He returned to it in the 1859 *A Contribution to the Critique of Political Economy* and we shall consider the ideas presented there in Section 5.7 below.

By its very nature, in its striving to maximise the valorisation process, capital would take steps to transcend any impediment or barrier to that process. Thus Marx wrote that "capital is the endless and limitless drive to go beyond its limiting barrier. Every boundary [*Grenze*] is and has to be a barrier [*Schranke*] for it. Else it would cease to be capital ..." (G, 334). This was an important principle in Marx's formulation of the "laws of motion" of capitalism.<sup>4</sup> The barriers to be transcended would constantly reappear as a consequence of that transcendence. The fate of capitalism was sealed in this barrier - transcendence-barrier theory of "motion" and Marx elaborated this *principle* in the following passage:

But from the fact that capital posits every such limit as a barrier and hence gets *ideally* beyond it, it does not by any means follow that it has *really* overcome it, and, since every such barrier contradicts its character, its production moves in contradictions which are constantly overcome but just as constantly posited. Furthermore. [*sic*] The universality towards which it irresistibly strives encounters barriers in its own nature, which will, at a certain stage of its development, allow it to be recognised as being itself the greatest barrier to this tendency, and hence will drive towards its own suspension. (G, 410.)

Having stated this principle, though, Marx still had a long way to go in his endeavours to formulate from it a coherent, operational analysis of the "motion" and fate of capitalism. This will become clear as we proceed in this Chapter and in Chapters 11, 12 and 13 below.

The barriers with which Marx was initially concerned were those external to production.

Inside the production process, realisation [*Verwertung*] appeared totally identical with the production of surplus labour (the objectification of surplus time), and hence appeared to have no *bounds* other than those partly presupposed and partly posited within this process itself, but which are always posited within it as *barriers* to be forcibly overcome. There now appear barriers to it which lie *outside* it. (G, 404.)

We see in this passage that Marx was concerned also with the barriers that were internal to the production process. These especially involved the dynamics of capital accumulation and will be considered in Section 5.6 below.

For the present, it was *consumption demand* which was viewed by Marx as the root of the barriers to adequate circulation in support of production. This barrier had two dimensions. First, the use value of commodities must be appropriate to extant needs, keeping in mind that such needs may be quantitatively finite. Secondly, the value equivalent must be available for expenditure on consumption (G, 404-5). But, just as this barrier might appear due to failure of one or both of these conditions, so capital had to overcome it.

One way in which full valorisation might be achieved in spite of this consumption barrier was for capital to expand its sphere of circulation by entering new markets. Especially was this required where capital accumulation and growth were occurring. As Marx saw it:

A precondition of production based on capital is therefore *the production of a constantly widening sphere of circulation*, whether the sphere itself is directly expanded or whether *more points within it are created as points of production*. While circulation appeared at first as a constant magnitude, it here appears as a moving magnitude, being expanded by production itself. Accordingly, it already appears as a moment of production itself. (G, 407.)

In formulating his ideas on the "excess commodity"<sup>15</sup> form of potential crisis in the *Grundrisse*, Marx gave some attention to a critique of received political economy's handling of the issue. The main point of argument was summarised by Marx as follows:

The whole dispute as to whether *overproduction* is possible and necessary in capitalist production revolves around the point whether the process of the realisation of capital within production directly posits its realisation in circulation; whether its realisation posited in the *production process* is its *real* realisation. (G, 410-1.)

He began by drawing an interesting critical comparison between the work of Ricardo and Sismondi (G410-1). In Marx's view, neither writer had captured the scope of the "laws of motion" adequately. For Ricardo, the objective of political economy was to explain the distributional effects of capital accumulation and development (G, 597.) In this analysis, Ricardo remained unconcerned with the potential problems for capitalism which were revealed when the analysis of production was extended to include circulation. His focus was on "supply without regard to demand" and he:

... conceived production as directly identical with the self-valorisation of capital - and hence [was] ... heedless of the barriers to consumption ..., having in view only the development of the forces of production and the growth of the industrial population .... (G, 410.)

Marx commented, though, that in approaching political economy in this way, Ricardo had "grasped the positive essence of capital more correctly and deeply" than Sismondi had done (G, 410). Ricardo had encapsulated the way in which the capitalists themselves behaved in their *production* oriented decision making.

Sismondi's interpretation of capitalism gave less emphasis to this basic nature of the production process from which capitalist "motion" emanated. But, he was more aware of the tenuous nature of the "motion" which did appear. Unlike Ricardo, he "emphasised the barriers of consumption" and "better grasped the limited nature of production based on capital, its negative one-sidedness." (G, 410). Furthermore, Sismondi comprehended that the barriers were created by capital itself and that they may ultimately lead to the "breakdown" of capitalist production in some sense. Sismondi went on to argue that the solution to this problem of capitalism was artificially to restrict production, but in Marx's view of

the nature of capital any such attempt would "necessarily be demolished by capital" (G, 411).

However, Marx was able to find in Ricardo's work some awareness of the existence of barriers in the capitalist circulation process.

Ricardo ... has a suspicion that the *exchange value* of a commodity is not a value apart from exchange, and that it proves itself as a value only in exchange; but he regards the barriers which production thereby encounters as accidental, as barriers which are overcome. He therefore conceives the overcoming of such barriers as being in the essence of capital, although he often becomes absurd in the exposition of that view .... (G, 411.)

What remained "absurd" in Ricardo's exposition of "motion" was his dogmatic acceptance of the dictum posited by Say and James Mill that *general over-production* was prevented by the *existence* of supply and its immediate consequential equivalence as demand. Marx's attitude towards this dogma was made quite clear.

This nonsense about the impossibility of overproduction (in other words, the assertion of the immediate identity of capital's process of production and its process of realisation) has been expressed in a manner which is at least sophisticated, i.e. ingenious, ... by James Mill, in the formula that supply = its own demand, that supply and demand therefore balance, which means ... the same thing as that value is determined by labour time, and hence that *exchange adds nothing to it*, and which forgets only that exchange does have to take place and that this depends (in the final instance) on the *use value*. (G, 423.)

Marx found some limited merit in the understanding of capitalism which "Say's Law" implied. This merit had two dimensions. First, it was the case that production of value was the potential source of demand for the commodities involved when that value was distributed as incomes and for replacement of means of production (although Marx's present emphasis was on consumption demand only) (G, 411-2). Secondly, the argument implicitly recognised that value came from production and that exchange itself added nothing to the value in circulation. This point was made by Marx in the above passage. Both of these dimensions gave the dictum its "sophistical" and "ingenious" content. They reflected a limited comprehension of two important facts about capitalism as Marx saw it.



What was *not* included was the additional fact that the harmonious operation of capitalism depended upon the *exercise* of demand rather than simply upon the *potential* for it. This, Marx stressed, depended upon the use-values being produced and these were unrelated to exchange values. Thus, the "use value [of a commodity] ... is absolutely not measured by the labour time objectified in it, but rather a measuring rod is applied to it which lies outside its nature as exchange value" (*G*, 412). This "measuring rod" was the existing needs of consumers. We note that Marx is assuming in the present argument that the incomes are available to make the needs based demand *effective* (*G*, 404).

It was also the case, Marx argued, that the "Say's Law" expression of these basic features of capitalism revealed a better comprehension of the nature of the system than the "vulgar" ideas posited by some writers who followed Ricardo. It was their approach, in endeavouring to portray the harmonious progress of capitalism, to obscure the overproduction malady by denying the specific nature of capitalist production. Marx wrote on this that:

The attempts made from the orthodox economic standpoint to deny that there is *general overproduction* at any given moment are indeed childish. ... [In] order to rescue production *based on capital* (see e.g. MacCulloch), all its specific qualities are ignored and their specific character as forms omitted, and capital is conceived as its inverse, as simple production for *immediate use value*. Totally abstracts away the essential relations. In fact, in order to cleanse it of contradictions, it is virtually dropped and negated. (*G*, 411.)

No supporting evidence was given for this assertion, but it did serve to emphasise again the crucial role that Marx saw for the basic nature of capital in understanding capitalism. If this nature was not interpreted "correctly", the subsequent analysis of the system would be inaccurate.

The "Say's Law" principle, Marx noted, did allow for the emergence of specific disproportions between sectors of production and patterns of demand. Thus *partial* overproduction was possible while *general*

overproduction was not. Marx reasoned that this view merely dodged the issue. Any failure to realise the values of commodities produced through exchange constituted *overproduction per se*. Only a matter of degree was involved (G, 412). Moreover, the existence of overproduction in any degree highlighted the contradictions of capitalism as Marx saw them. That *partial* overproduction could be corrected by a redistribution of productive resources *presupposed* disharmony (G, 413) and implied that the disharmony could be perpetuated and exacerbated by decisions involving "overcorrection". Competition, the basis for this corrective mechanism, was not constrained by the specifics of the disproportion that existed. Political economy had failed to comprehend the implications of competition as the manifestation of the "inner nature of capital", involving as it did the continual interaction of *independent* capitals (G, 413-4). Marx's conclusion was that the operations of capital in production and circulation could not prevent a continuous overproduction disequilibrium. For Marx, then:

conceptually, *competition* is nothing other than the inner nature of *capital*, its essential character, appearing in and realised as the reciprocal interaction of many capitals with one another, the inner tendency as external necessity. ... Capital is just as much the constant positing as the suspension of *proportionate production*. The existing proportion always has to be suspended by the creation of surplus values and the increase of productive forces. But this demand, that production should be expanded *simultaneously* and *at once in the same proportion*, makes external demands upon capital which in no way arise out of itself; at the same time, the departure from the given proportion in one branch of production drives all of them out of it, and in unequal proportions. (G, 414.)

The insight contained in this passage exposed clearly the folly of the naive belief that partial overproduction was simply a temporary aberration which would be self-correcting through competition. The very nature of capital militated against this outcome. Surplus value generation meant capital accumulation and consequent changes in the forces of production. These effects constantly fed the disproportionate state of the system. The interdependent nature of the capitalist mode of production ensured

the spread of any sectoral disproportion, and competition served to sustain this state by encouraging further capital accumulation and changes in the forces of production.

According to Marx, both Malthus and Sismondi had "correctly remarked" on the point that the aggregate demand generated by workers would not be sufficient to purchase the aggregate supply of commodities (G, 413, 420). Proudhon was also credited with this realisation, although his reasoning was inappropriate for it depended upon "added-on" non-labour incomes in value.

Proudhon, who certainly hears the bells ringing but never knows where, therefore sees the origin of overproduction in the fact 'that the worker cannot buy back his product'. By this he understands that interest and profit are added on to it; or that the price of the product is an overcharge on top of its real value. (G, 424.)

In rejecting the embodied labour theory of value, Malthus and Sismondi had also seen the issue in much the same way. By contrast, Marx always adhered to the labour theory of value in his discussions of overproduction.<sup>6</sup>

Recognition of this constraint upon demand led Marx to consider further the capital-labour relation. Labour related to capital most directly as the exchange value of labour power purchased and the use value of living labour exercised to generate value. An additional consideration which now came to light was the relation of capital to labour as a consumer. (G, 419-22). The nature of capital was such that it would want to maximise consumption by workers it did not employ as an individual capital while minimising the consumption of workers it did so employ. Capital, then, embodied the further contradiction that, in striving to minimise the value of labour power as dictated by real consumption patterns, it also reduced the aggregate demand for commodities produced.

In the foregoing discussion of this Section, Marx's position on the "excess commodity" crisis potential of capitalism was concerned almost completely with "underconsumption".<sup>7</sup> At this stage, though, Marx was not

intending to develop the analysis of overproduction fully. On this he wrote that:

The point here, of course, is not yet to develop overproduction specifically, but only the predisposition to it, such as it is posited in primitive form in the capital relation itself. (G, 419.)

The most obvious and "primitive" form of overproduction was indeed underconsumption. The development of this *particular form* of overproduction was sufficient to demonstrate the potential in capitalism for the malady to appear more generally. And, as Marx argued in the following passage, overproduction generally was a vital component in comprehending the "motion" of capitalism.

It is enough here to demonstrate that capital contains a *particular* restriction of production - which contradicts its general tendency to drive beyond every barrier to production - in order to have uncovered the foundation of *overproduction*, the fundamental contradiction of developed capital; in order to have uncovered, more generally, the fact that capital is not, as the economists believe, the *absolute* form for the development of the forces of production .... (G, 415.)

There was, however, no further development of this more general analysis of overproduction in the *Grundrisse*, although Marx's initial thoughts on the reproduction schema pointed in this direction by implication (see Section 5.5 below).

#### 5.4 THE PRODUCTION-CIRCULATION UNITY AND THE GENERATION OF SURPLUS VALUE.

In Section 5.2 above, we considered Marx's view that the valorisation process of capital could only be fully explained if production and circulation were treated as a unity. One particular consequence of this treatment was Marx's recognition that the periodic generation of surplus value depended upon the characteristics of circulation, especially the circulation time and the rate of turnover of capital embodied in the means of production. His idea was that:

... while circulation does not itself produce a moment of *value-determination*, for that lies exclusively in labour, its speed does determine the speed with which the production process is repeated, values are created - thus if not *values*, at least to a certain extent the mass of values. Namely, the values and surplus values posited by the production process, multiplied by the number of repetitions of the production process in a given period of time. (G, 538.)

The fundamental principle that Marx applied in analysing this aspect of the "motion" of capitalism was that during any period that part of the aggregate capital advanced was not embodied in forms actually involved in *production* it was effectively "devalued". As Marx put it, "[while] labour time appears as value-positing activity, this circulation time of capital appears as the *time of devaluation*" (G, 538). He went on to elaborate on this important thesis:

Capital exists as capital only in so far as it passes through the phases of circulation, the various moments of its transformation, in order to be able to begin the production process anew, and these phases are themselves phases of its valorisation - but at the same time, ... of its *devaluation*. As long as capital remains frozen in the form of the finished product, it cannot be active as capital, it is *negated* capital. Its valorisation process is delayed in the same degree, and its value-in-process [*prozessierender Wert*] negated. This thus appears as a loss for capital, as a relative loss of its value, for its value consists precisely in its valorisation process. This loss of capital means ... that time passes by unseized, time during which it could have been appropriating alien labour, *surplus labour time* through exchange with living labour, if the deadlock had not occurred. (G, 546.)

The significance of circulation time for capital was that it acted as a *barrier*, a "deadlock", to the maximisation of value and surplus value generation. In part, this was a consequence of capital's development, its endeavours to seek out more *extensive* markets (G, 539, 545).

Marx developed this idea of a "circulation barrier" more fully later in the manuscript. His analysis first of all was devoted to the nature of capital in this particular context. This led him to formulate the categories "circulating" capital and "fixed" capital in a special way (G, 618 ff). Circulation, movement *through* phases of form, was the essence of capital's involvement in the production-circulation unity. In this sense, all capital was circulating capital and Marx explained the idea

as follows:

Circulating capital is therefore initially not a *particular* form of capital, but is rather *capital* itself, in a further developed aspect, as subject of the movement [in production-circulation] ... which it, itself, is as its own valorisation process. In this respect, therefore, every capital is *circulating capital*. (G, 620.)

There was a time dimension to circulation which was determined in part by the time period that capital spent in any one phase form, e.g. as means of production or as finished commodities. During these periods it was *fixated* and *deactivated*. Thus:

... while capital ..., as the whole of circulation, is *circulating capital*, is the process of going from one phase into the other, it is at the same time, within each phase, posited in a specific aspect, restricted to a particular form, which is the negation of itself as the subject of the whole movement. ... Not - circulating capital. *Fixed capital*, actually *fixated* capital, fixated in one of the different particular aspects, phases, through which it must move. As long as it persists in one of these phases - [as long as] the phase itself does not appear as fluid transition - and each of them has its duration, [then] it is not circulating, [but] fixated. (G, 620-1.)

While fixated or circulating outside of the *flow* process of production, capital was not involved in generating surplus value. The periodic generation of surplus value by a given capital depended very much upon these characteristics of the cycle of capital.

In the following passage, Marx presented the aspects of capital in circulation which he utilised more formally to analyse the generation of surplus value in the present context.

Since capitals are (1) divided into fixed and circulating capital in unequal portions; (2) [have] an interrupted or uninterrupted production phase and return from more distant or nearer markets, hence, unequal circulation time; it follows that the determination of the surplus value created in a given time, e.g. annually, must be unequal because the number of reproduction processes in the given period is unequal. The amount of value created appears determined not simply by the labour employed during the immediate production process, but by the degree to which this exploitation of labour can be repeated within a given period of time. (G, 741.)

The circulation constraint on periodic surplus value generation, then, comprised two components which Marx analysed more formally in turn. First, the effect of the time durations of production and circulation processes

themselves; and, secondly, the effect of the proportional division of capital advanced into circulating and fixed components (on the usual criterion of one or more than one period return cycles respectively) will be considered in the remainder of this section.

Marx posited the following time period sequence which comprised the production-circulation cycle:

(1) Creation of surplus value, or immediate production process. Its result, the product. (2) Bringing the product to market. Transformation of product into commodity. (3) (a) Entry of the commodity into ordinary circulation .... Its result: transformation into money. This appears as the first moment of ordinary circulation. Retransformation of money into the conditions of production: money circulation .... (4) Renewal of the production process, which appears here as reproduction of the original capital, and production process of surplus capital. (*G*, 619.)

The number of times that surplus value was generated in any particular period depended upon the duration of the two summary components, production time and circulation time. From this, the aggregate surplus value generated in the period could be computed once rate of generation in each *production* period was known.

After struggling with some arithmetical computations, Marx devised an algebraic analysis of the problem (an approach rarely used in his writings). (*G*, 652-7.)

Let:

particular period of analysis =  $T$  days.

production period =  $p$  days.

circulation period =  $c$  days.

surplus labour time per  
production period =  $S$  days.

The surplus value generated in period  $T$  is:

$$(1) \quad S' = S \cdot \frac{T}{(p + c)}$$

on the assumption that the production period equals the labour time, i.e. that there were no interruptions within the production process itself.

The actual effect of having a positive period of circulation,  $c > 0$ , is given by:

$$(2) \quad \frac{S'}{p} - \frac{ST}{(p+c)} = \frac{STc}{p(p+c)}$$

and from this  $S'$  may be re-expressed as:

$$(3) \quad S' = \frac{ST}{p} \left(1 - \frac{c}{p+c}\right).$$

In this expression,  $c/p+c$  is the fraction of the total production-circulation time which is occupied by the circulation process. We can demonstrate Marx's point that an increase in production and/or circulation time would reduce the aggregate surplus value generated by applying some simple calculus to equation (1):

$$(4) \quad \frac{\partial S'}{\partial p} = \frac{\partial S'}{\partial c} = - \frac{ST}{(p+c)^2}$$

This expression is always negative, given positive values for  $S$  and  $T$ .

In considering the effect of the division of capital into its fixed and circulating proportions on the aggregate periodic generation of surplus value, Marx analysed two aspects of the problem: first, the effects of variations in the fixed-circulating capital proportions, and, secondly, the effects of variations in the durability of the fixed capital component. These had a joint impact upon the turnover of capital and thus upon surplus value generated.

The analysis which Marx began in algebraic terms may be developed along the following lines in order to demonstrate the points that he made.

Let:

particular period of analysis =  $T$  years

total capital employed =  $K$  money units

fixed capital proportion =  $K/x$

circulating capital proportion =  $K/y$

where :  $\left(\frac{1}{x} + \frac{1}{y}\right) = 1$



fixed capital durability =  $d$  years ( $\geq 1$ )

circulating capital turnover =  $t$  years ( $< 1$ )

Then, in period  $T$ :

$\frac{K}{x}$  capital turns over  $\frac{T}{d}$  times

$\frac{K}{y}$  capital turns over  $\frac{T}{t}$  times

The total capital turnover in period  $T$  is given by:

$$\left(\frac{K \cdot T}{x \cdot d} + \frac{K \cdot T}{y \cdot t}\right)$$

If the surplus value generated on each unit of capital turned over in period  $T$  is given by  $S$ , then the aggregate surplus value generated is:

$$\begin{aligned} (5) \quad s' &= S \left( \frac{K \cdot T}{x \cdot d} + \frac{K \cdot T}{y \cdot t} \right) \\ &= SKT \left( \frac{1}{xd} + \frac{1}{yt} \right) \end{aligned}$$

From  $\left(\frac{1}{x} + \frac{1}{y}\right) = 1$ , this becomes:

$$(6) \quad s' = SKT \left( \frac{1}{xd} + \frac{1}{t} - \frac{1}{tx} \right)$$

This formulation is consistent with an arithmetical example given by Marx in the course of his analysis (*G*, 684).

total capital  $K = 100$  thalers

analysis period  $T = 1$  year

Case (1): no fixed capital, with  $t = \frac{1}{2}$  year.

$$\frac{1}{x} = 0, \quad \frac{1}{y} = 1$$

let  $S = 0.05$  and substitute in equation (5)

$$\begin{aligned} s' &= 0.05 \cdot 100 \cdot 1 \left( 0 + 1 \cdot \frac{1}{\frac{1}{2}} \right) \\ &= 10 \text{ thalers.} \end{aligned}$$

Case (2): introduce fixed capital, with  $d = 1$  year

$$\frac{1}{x} = \frac{1}{2}, \quad \frac{1}{y} = \frac{1}{2}$$

$$S' = 0.05 \cdot 100 \cdot 1 \left( \frac{1}{2} + \frac{1}{2} \cdot \frac{1}{\frac{1}{2}} \right)$$

$$= 7.5 \text{ thalers.}$$

The effect of increasing the fixed capital proportion of total capital was to reduce the surplus value generated in the period because of reduced capital turnover. This result can be generalised by applying calculus to equation (6):

$$(7) \quad \frac{\partial S'}{\partial x} = \frac{SKT}{x^2} \left( \frac{1}{t} - \frac{1}{d} \right)$$

With  $1/t > 1/d$  by definition, this expression is always positive for positive values of  $S$ ,  $K$  and  $T$ . Thus, as  $x$  decreases and the proportion of fixed capital in total capital rises, the surplus value generated decreases also.

$$(8) \quad \frac{\partial S'}{\partial d} = \frac{-SKT}{x \cdot d^2}$$

This expression is always negative for positive values of  $S$ ,  $K$ ,  $T$  and  $x$  implying that an increase in the durability of the fixed capital employed reduces surplus value generated.

$$(9) \quad \frac{\partial S'}{\partial t} = \frac{SKT}{t^2} \left( \frac{1}{x} - 1 \right)$$

This expression is always negative for positive values of  $S$ ,  $K$  and  $T$  because  $\frac{1}{x} < 1$  by definition implying that an increase in the circulation period of circulating capital reduces the surplus value generated.

The result of including fixed capital in production was to reduce the effective capital turnover in a given period. Marx went on to make the point that such a calculation of turnover did not mean that the fixed capital element was *replaced* in the turnover period. Replacement cycles were determined by the durability of the fixed capital concerned. He did

not, however, follow through the implications of these cycles for aggregate demand in any detail, although he suggested a relationship with long-term, ten-yearly fluctuations of activity (*G*, 720).

In these analyses of aggregate surplus value generation and its circulation constraint, Marx recognised that he was dealing with production and circulation at the abstract level of capital-in-general. Further development of the analysis of capitalism's "motion" required that he penetrate to the "many-capitals" level of analysis in which the interdependence between the operations of the capitals had to be considered. In the next Section, we discuss Marx's first efforts to develop this necessary extension of his analysis.

#### 5.5 PRODUCTION AND THE ESSENTIALS OF REPRODUCTION.

It was indicative of Marx's emphasis on capital-in-general in the *Grundrisse* that when he considered the contributions of the Physiocrats to political economy, he gave little recognition to their understanding of the inter-sector interdependencies in the reproduction process of capitalism. Rather, his concern was with their treatment of capital in the analysis of production, especially as they had distinguished capital from money which had been the focus of the earlier "Monetary" and "Mercantile" systems of political economy.<sup>8</sup> (*G*, 327-8, 517.)

In spite of this, however, Marx was aware of the need to analyse the production-circulation process at a level which included the separation of capital-in-general into components associated with the different sectors of production. As he expressed it, the analysis of circulation at the aggregate level was "a haze under which yet another whole world conceals itself, the world of the interconnections of capital ..." (*G*, 639). This "simultaneity of the different orbits of capital" could only become evident

once many capitals were presupposed in the analysis (*G*, 639).

Once he moved to this level of analysis, Marx approached quite close to the formulation of a reproduction model in the *Grundrisse* which allowed for the relationships between the sectors of production. This came in the context of his considerations of the general rate of profits which were also affected by the explicit inclusion of many capitals. (See above, Chapter 4, Section 4.7.) The analysis required the presentation of the production process as involving several different "branches of business" (*G*, 435 ff). These branches all employed capital and competition between them ensured that a uniform general rate of profits was generated. However, in spite of this competition, the branches were also highly interdependent and Marx *implied* this in his analysis of the five-branches model, although he qualified the presentation as only *possibly* to be continued later and as not belonging to the present stage of his work (*G*, 442).

Marx presented the schema shown in Table 5.1 as the basis for his discussion (*G*, 441).<sup>9</sup> The significant point was that each sector A to E (where the Table ordering is Marx's own) depended for its reproduction on the other sectors in the sense that the inputs to each, viz. workers' necessaries (and thus labour), raw materials and machinery, were the outputs of other sectors. In addition, it was initially assumed that the surplus generated by each was completely spent by the capitalists on consumption of the commodity produced for them in sector D (labelled as "Surplus-product"). This interdependence could only be realised fully if the production-circulation unity comprised a qualitatively and quantitatively appropriate set of commodities and exchanges between capitalists and capitalists and between capitalists and workers. Marx demonstrated that this was *possible* by means of some simple arithmetic, putting aside for the moment any impediments to the actual operation of

the required conditions. Later Marx would refer to this case as "simple reproduction" and the data in Table 5.1 are consistent with such a model.

	Machinery	Raw Material	Labour	Surplus Product
A. Raw material manufacture 1.	20	40	20	20
B. Raw material manufacture 2.	20	40	20	20
C. Machinery manufacture	20	40	20	20
E. Workers' necessaries	20	40	20	20
D. Surplus-product	20	40	20	20

TABLE 5.1

Marx concluded that in the above case, the capitalists would not be serving their objective of valorisation of capital. "If they consumed the entire surplus, then they would have come no further at the end than they were at the beginning, and the surplus value of their capital would not grow." (*G*, 441). This led Marx to consider a second case in which half of the surplus generated by each capitalist was saved and applied to capital accumulation (*G*, 441-3). This case would later be called "expanded reproduction".

In considering capital accumulation and the reproduction requirements, Marx did not at this stage formulate the model very clearly. He did, though, elicit some principles of the analysis which would be built upon later. The effect of the decision by capitalists to save out of surplus value would affect directly the quantitative interdependence requirements

between the sectors of production. First of all, the demand for the production of sector D would be halved. At the same time, the demand for the outputs of the remaining sectors would be increased, with the quantitative assumption being that the replacement and additional capital compositions for each sector would be the same as those already in operation. For this extension to be consistent with reproduction, again the quantitative and qualitative structure of production-circulation had to be appropriate. Marx's arithmetic on this point only went part of the way towards a formulation of the precise conditions required.

Marx drew from his analysis some significant dynamic implications for capitalism (G, 443-4). It was evident to him that the reproduction conditions that applied depended upon what happened to the composition of capital in use from period to period. This increased the complexity of the valorisation process and reduced the probability that it would proceed such as to generate stable growth. Moreover, the sectors would develop independently in spite of their dependence upon each other in collective operation. Such development would increase the complexity of the valorisation process even further and Marx concluded that capitalism would experience crises as a consequence. The crisis would appear as a barrier to the progress of the system and would have to be transcended. This could occur, Marx argued, because the capitalists would be *forced* to recognise the interdependence of sectors and change their short-run decisions to compensate for the imbalances that had emerged. It followed for Marx that this "correction" process would be virtually continuous as each crisis, when transcended, generated the independent behaviours of sectors which would lead to another.

Recognition of the role that changing capital composition could have in expanded reproduction led Marx to a more detailed analysis of the qualitative effects on capital of the accumulation process. His analysis

of this important dimension of the "motion" of capitalism was carried out at the level of capital-in-general. We consider it in the next Section.

## 5.6 THE DYNAMICS OF CAPITAL COMPOSITION AND THE RATE OF PROFITS.

At the level of production *per se*, abstracting from any circulation influences, Marx reasoned that the generation of surplus value per unit of capital advanced, the *value* rate of profits, depended upon two dimensions of the production process (G, 387 n, 746-7). First, the *rate* of generating surplus value per unit of *variable* capital, expressed as the ratio of surplus labour to necessary labour and later to be called the rate of surplus value, was important and any change in this rate would change the rate of profits. The second factor which affected the rate of profits was the relative proportion of constant capital and variable capital comprising the capital advanced. This ratio, later to be called the organic composition of capital, was expressed in vague terms by Marx at this stage. Especially did he not consider the ramifications of the alternative use of a *physical* ratio or a *value* ratio in the analysis of the determination of the rate of profits.

Quite early in the *Grundrisse* manuscripts, Marx expressed the idea that for a capital of given size, the surplus value that it generated (per period) depended upon its composition in terms of the proportions advanced to employ labour and to purchase raw materials and machinery. He was immediately aware also that this idea would have to be applied in the setting of capital accumulation (G, 385, 387, 394) with the capital stock increasing.

The argument at this stage was based loosely upon Marx's perception of some relationship between the constant and variable capital proportions employed and the "productive force" available. As he put it:

... if the total value of the capital remains the same, an increase in the productive force means that the constant part of capital ... grows relative to the variable.... This means at the same time that a smaller quantity of labour sets a larger quantity of capital in motion. (G, 389.)

Marx continued by considering this larger capital aspect further:

If the *total value of capital* entering into the production process increases, then the wage fund (this variable part of capital) must decrease *relatively*, compared to the relation if the productivity of labour, i.e. the relation of necessary to surplus labour, had remained the same. (G, 389.)

The interdependence between the trend of the organic composition of capital and the trend of the rate of surplus value was of considerable significance in the "motion" associated with capital accumulation. As Marx realised, this interdependence involved a contradiction for capital. The accumulation of capital reflected capital's drive for maximum valorisation. The shift towards an increased proportion of constant capital in total capital and the improved productivity which resulted was the necessary outcome of the competitive process which each capitalist faced. But, in terms of surplus value generation, the falling proportion of variable capital upon which the surplus depended offset to some degree the rising rate of surplus value. Marx argued that:

It is a law of capital ... to create surplus labour ...; it can do this only by setting *necessary labour* in motion - i.e. entering into exchange with the worker. It is its tendency, therefore, to create as much [surplus] labour as possible; just as it is equally its tendency to reduce necessary labour to a minimum. (G, 399.)

This interpretation of the development of capital had implications for both labour and capital itself.

As far as labour was concerned, the progressive substitution of machinery for labour in production would reduce the proportion of the growing population that was required as workers. The result was a growing "reserve" of labour (G, 400). More than this, though, the alienating, dominating force of capital over labour became more pronounced in the development process. The human conditions in production thus became progressively more depressing for those still engaged in work (G, 693-5,



700-1). These effects on labour of the "motion" of capital were significant in Marx's view of the evolving socio-political force of the proletariat which accompanied the economic development of capitalism. It would be this force, born of the conditions of production, which ultimately would manifest itself in the revolutionary transition to socialism. As Marx put it: "At a certain point, a development of the forces of material production - *which is at the same time a development of the forces of the working class* [emphasis added] - *suspends capital itself*" (G, 543).

For capital, the contradictory development of productive force and capital composition was to present it with a continual impediment to the valorisation process. The major manifestation of this impediment was argued by Marx to be the tendency of the rate of profits to fall. He found this to be a profoundly significant aspect of the "motion" of capital. By its very nature, capitalism's endeavours to expand would be accompanied by changes which induced the fall. Marx stated his belief quite baldly that the dynamics of capital accumulation and the rate of profits represented:

... in every respect the most important law of modern political economy, and the most essential for understanding the most difficult relations. It is the most important law from the historical standpoint. It is a law which, despite its simplicity, has never before been grasped and, even less, consciously articulated. (G, 748.)

He went on to provide some brief discussion of previous endeavours to explicate the falling rate of profits as a component of the dynamics of capital.

Adam Smith had argued that as capital accumulated, there would emerge increased competition between capitalists for limited investment opportunities. This would drive down the rate of profits. David Ricardo had responded, in criticism of Smith, that while competition would act to generate a uniform rate of profit in the various branches of production,

it could not itself reduce the general rate. Marx agreed with Ricardo on this principle.

Competition can permanently depress the rate of profit in all branches of industry, i.e. the average rate of profit, only if and in so far as a general and permanent fall of the rate of profit, having the force of a law, is conceivable *prior to* competition and regardless of competition. Competition executes the inner laws of capital; makes them into compulsory laws towards the individual capital, but it does not invent them. It realises them. To try to explain them simply as results of competition therefore means to concede that one does not understand them. (*G*, 752.)

In spite of *this* agreement with Ricardo, Marx did not think Ricardo's explanation a viable one. The squeeze on the rate of profits in Ricardo's theory was the result of decreasing productivity of labour working to produce corn, the main wage commodity. Marx denied that there was any empirical evidence that such a decrease in productivity ensued with the increased output of agriculture. His reading of agricultural science had shown Ricardo's assumption to be false (*G*, 754). Moreover, Ricardo's explanation was one-sided in that it took no account of the *rising* productivity of labour in non-agricultural industry.

In contrast to Ricardo's discussion of the tendency of the rate of profits to fall, Marx saw his own interpretation as more fundamental, direct and general. He did not have to work through agriculture or apply a theory of rent in order to explain the phenomenon. His theory was rooted firmly in the processes of capitalist production in general and capital accumulation. As Makoto Itoh puts it:

... Marx attempts to show that it is not a natural factor like fertility, outside capital, but the increasing process of productive power inside capital itself that causes a falling tendency in [the] profit rate.<sup>10</sup>

Other writers after Ricardo had also taken up the issue of the falling rate of profits, but their efforts were, in Marx's view, even less acceptable than those of Ricardo in many cases. Marx found in the work of unspecified "disciples" of Ricardo a marked de-emphasis of those parts of the latter's argument which implied any conflict between the participants

in the capitalist system (*G*, 754). Wakefield was cited as having retained Adam Smith's approach in which competition for limited investment opportunities would drive down the rate of profits. It was, though, Carey and especially Bastiat who received most explicit criticism from Marx for their presentation of capitalism as an harmonious set of relationships. In their work:

The unpleasant contradictions, antagonisms within which classical economics moves, and which Ricardo emphasises with scientific ruthlessness, are thus watered down into well-to-do harmonies. (*G*, 754.)

For Bastiat (*G*, 754-8) the falling rate of profits was the consequence of a process of redistribution which gave a greater relative share of produced value to labour. While capital received a greater *absolute* profit, the rate of that profit on capital advanced fell. Marx found this to be a quite superficial analysis of the issue which gave no consideration to the *production* component of the dynamics of capital accumulation. As Marx read it, Bastiat had had to assume what he set out to prove, viz. the falling rate of profits itself.

Marx's own analysis of the falling rate of profits in the *Grundrisse* revealed some consciousness of the ambiguities that this apparently "simple" law involved. The tendency had to be the outcome of at least two contradictory effects on the rate of profits as capital accumulated. These were the rising organic composition of capital and the rising rate of surplus value which affected the rate in opposite directions. However, as Michael Lebowitz has established, Marx's analysis in the *Grundrisse* involved a necessary, ultimate falling rate of profits. This result was carried forward into the writings for *Capital* in the 1860s.<sup>11</sup>

Lebowitz assembles what he argues to be the "critical elements" of Marx's falling rate of profits analysis in the *Grundrisse*. First, the surplus labour per worker is limited by the length of the working day. Secondly, as we saw in Chapter 4, Section 4.6.2 above, relative increases

in surplus labour were smaller than relative increases in productivity with the result that the proportional increase in surplus value between periods approached a limit as productivity increases continued. Thirdly, and also revealed in Section 4.6.2, as the limit to the surplus labour per worker is approached with the rising proportion of surplus labour in the working day, further increases in surplus labour per worker arising from a given productivity increase trend decline. Fourthly, increases in productivity are accompanied by increases in capital advanced per worker. The conclusion to be drawn from these four "critical elements" is that the falling rate of profits was inevitable for Marx because the rise in surplus labour per worker (the rate of surplus value) as capital accumulated and productivity increased could not keep pace with the rate of decline of workers employed relative to capital.

Lebowitz summarised this argument formally.

Let:  $s$  = surplus labour per worker.

$w$  = necessary labour per worker.

$\bar{d}$  = length of working day (constant, in hours).

$\bar{U}$  = use values comprising the commodity wage (constant).

$l$  = productivity of labour.

$\bar{\sigma}$  = coefficient of efficiency of capital in production (constant).

$k$  = capital per worker (hours of labour time).

$P'$  = rate of profits (ratio of surplus labour per worker to capital per worker).

$$(1) \quad s = \bar{d} - w$$

$$(2) \quad w = \frac{\bar{U}}{l}$$

$$(3) \quad l = \bar{\sigma} \cdot k$$

$$(4) \quad P' = \frac{s}{k}$$

From (1) and (2):

$$s = \bar{d} - \frac{\bar{U}}{l}$$

$$\therefore \frac{ds}{dl} = \frac{\bar{U}}{l^2} > 0$$

$$\text{and } \frac{d^2s}{dl^2} = \frac{-2\bar{U}}{l^3} < 0$$

Therefore, as  $l \rightarrow \infty$  so  $\lim s \rightarrow \bar{d}$  as shown in Figure 5.1

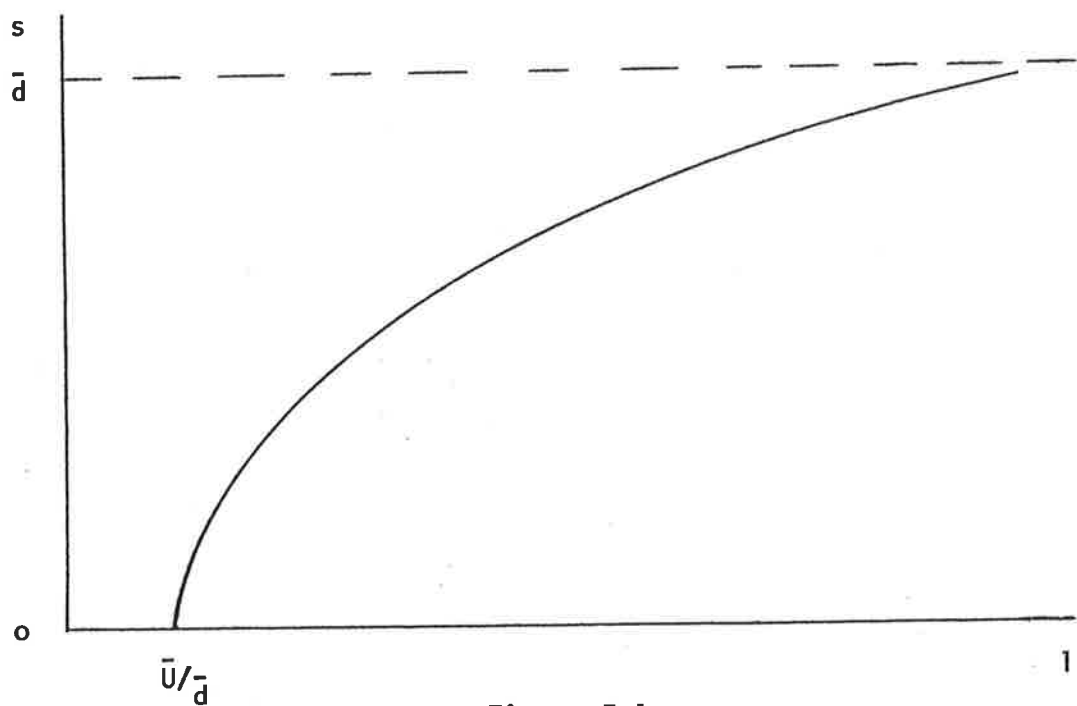


Figure 5.1

From (1), (2) and (3):

$$s = \bar{d} - \frac{\bar{U}}{\bar{\sigma} \cdot k}$$

$$\therefore \frac{ds}{dk} = \frac{\bar{U}}{\bar{\sigma} \cdot k^2} > 0$$

$$\text{and } \frac{d^2s}{dk^2} = \frac{-2\bar{U}}{\bar{\sigma} k^3} < 0$$

Therefore, as  $k \rightarrow \infty$  so  $\lim s \rightarrow \bar{d}$  as shown in Figure 5.2

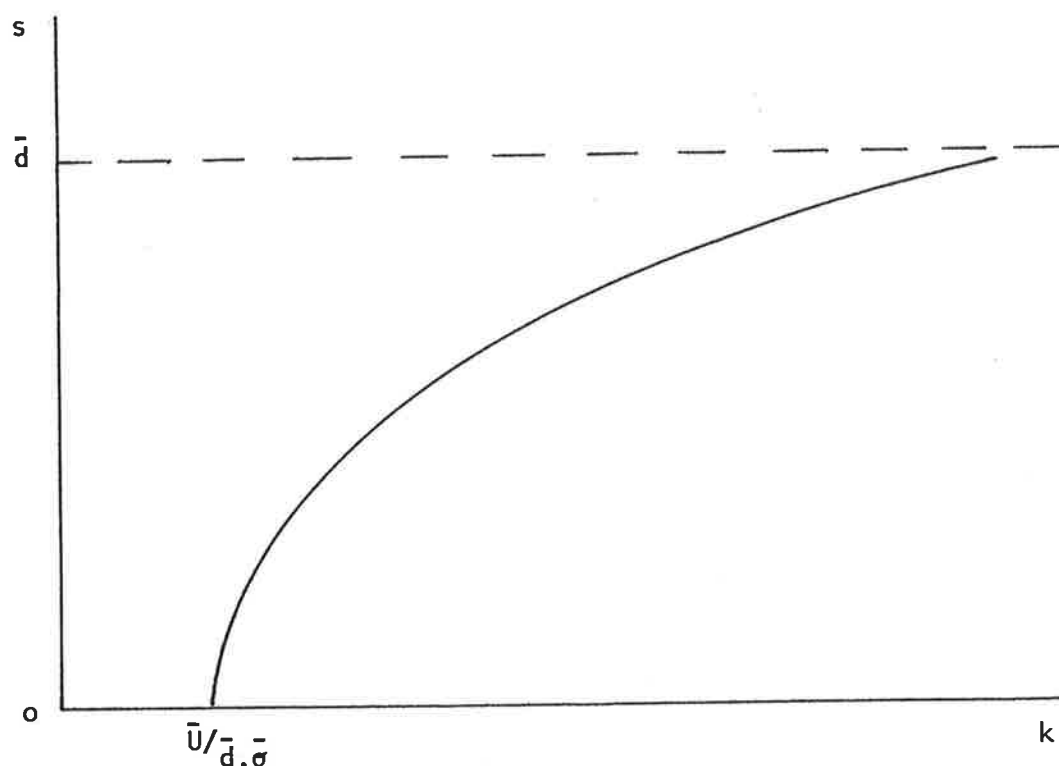


Figure 5.2

Thus, *in principle*, the limit to surplus labour per worker as both the productivity of labour and the capital per worker increase towards infinity is the length of the working day,  $\bar{d}$ . From equation (4) and the above analysis, it can also be seen that as  $k \rightarrow \infty$  so  $\lim P' \rightarrow \lim s / \lim k$ . This limit is zero, so the rise in capital per worker produces a fall in the rate of profits which only ceases at zero.

The analysis shows, however, that the falling rate of profits is conditional upon the capital per worker having reached a certain value. For values below this critical value, the rate of profits rises as the capital per worker rises.

From (1) to (4):

$$P' = \frac{\bar{d}}{k} - \frac{\bar{U}}{\bar{\sigma} \cdot k^2}$$

$$\therefore \frac{dP'}{dk} = \frac{2\bar{U}}{\bar{\sigma} \cdot k^3} - \frac{\bar{d}}{k^2}$$

The critical value for  $k$  is given by:

$$\frac{2\bar{U}}{\bar{\sigma} \cdot k^3} - \frac{\bar{d}}{k^2} = 0$$

$$\therefore k = \frac{2\bar{U}}{\bar{\sigma} \cdot \bar{d}}$$

such that  $\frac{dP'}{dk} \geq 0$  as  $k \leq \frac{2\bar{U}}{\bar{\sigma} \cdot \bar{d}}$

The path of the rate of profits as capital per worker rises from zero is shown in Figure 5.3

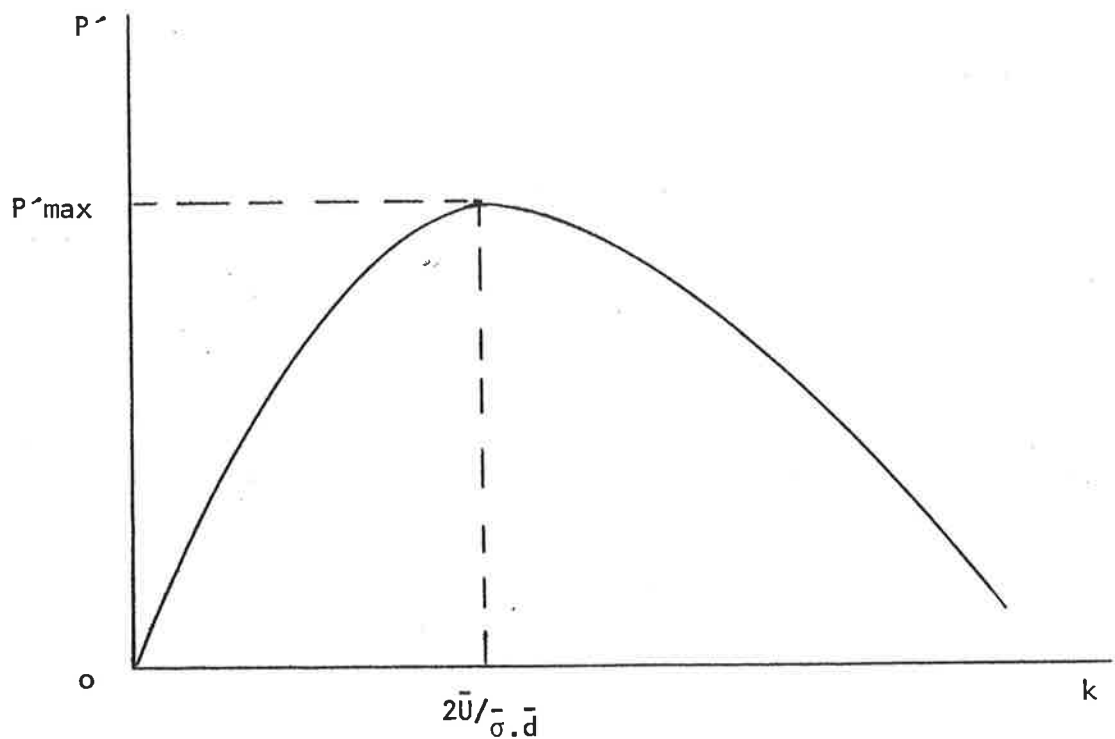


Figure 5.3

For Marx, his arithmetical manipulations, as generalised above, convinced him that capitalism faced an inevitable decline in the rate of profits generated in production. He concluded that:

The profit rate is ... inversely related to the growth of relative surplus value or of relative surplus labour, to the development of the powers of production, and to the magnitude of the capital employed as [constant] capital within production. In other words, the ... law is the *tendency of the profit rate to decline* with the development of capital .... (G, 763.)

Lebowitz goes on to point out that the argument posited by Marx was incomplete in two important and interrelated senses. First, he failed to distinguish the productivity effects implied by a change in the *value* composition of capital from those implied by a change in the *physical* or *technical* composition of capital. His formulation of the organic composition of capital concept was thus far from complete. Secondly, Marx did not allow productivity changes to affect the *value* of constant capital commodities and thus the *value* composition of capital. These elements when introduced place quite stringent conditions upon the analysis if a falling rate of profits outcome of capital accumulation is to be sustained. Moreover, Lebowitz also shows that even allowing for these stringent conditions, it is still possible to introduce reasonable additional changes in response to the falling rate of profits which would offset the tendency.<sup>12</sup>

Be this as it may, Marx proceeded in his later writings on the presumption that the falling rate of profits, at least in *value* terms, was an inevitable fate for capitalism. This presented capital with a barrier to its valorisation progress which, Marx asserted, would have quite dire consequences. He gave no *explanation*, however, for such an assertion that:

... the development of the productive forces brought about by the historical development of capital itself, when it reaches a certain point, suspends the self-valorisation of capital, instead of positing it. Beyond a certain point, the development of the powers of production becomes a barrier for capital .... (G, 749.)

He went on to present a more graphic *description* of the fate of capitalism in the following terms, but the prognosis was impressionistic and unsupported by any analysis:

... the highest development of productive power together with the greatest expansion of existing wealth will coincide with depreciation of capital, degradation of the labourer, and a most straitened exhaustion of his vital powers. These contradictions lead to explosions, cataclysms, crises, in which by momentaneous suspension of labour and annihilation of a great portion of capital the latter is violently reduced to the point where it can go on.... Yet, these regularly recurring catastrophes lead to their repetition



on a higher scale, and finally to its [capitalism's] violent overthrow. (G, 750.)

The thesis *hinted at* in these passages was that as capital met barriers to its self-valorisation objective, especially here in the form of the falling rate of profits, these barriers would be overcome temporarily. This would be achieved through decreases in labour employed and destruction of capital through bankruptcies which would allow the general rate of profits to recover. Such recovery would inevitably motivate another bout of overproduction of capital and commodities and the cycle would be repeated. The amplitude of the recessions experienced would ever worsen, Marx asserted, until the "degradation of the labourer" invoked a *reaction* involving the "violent overthrow" of the system. It was this thesis which formed the culmination of the core of analysis found in the *Grundrisse*. The analyses outlined in this and the previous Chapter were carried forward by Marx into subsequent stages of his evolving political economy of capitalism.

#### 5.7 THE INTERIM DEVELOPMENT OF THE *GRUNDRISSE*.

To complete the present Chapter, it is appropriate for us to discuss the contents of Marx's *A Contribution to the Critique of Political Economy* (*CPE*) published in 1859 because it represented the immediate development of some of the ideas adumbrated in the *Grundrisse* manuscripts. It was Marx's initial "form of presentation" to the public of his analyses of commodities, value, money and circulation.

Two chapters were included in the *Critique*: "The Commodity" and "Money or Simple Circulation". Both contained analyses which *presupposed* the existence of commodities and their value with little attention being given to production. The theme was really commodities and their circulation.

The chapter dealing with commodities and values amplified in much more readable form the ideas on these topics first sketched in the *Grundrisse*. Substantively, the theme was much the same as in the earlier work. The distinction between use value and exchange value was emphasised as being of fundamental concern for the nature of the circulation process under capitalism. The embodied abstract labour theory of value was outlined with its *social* ramifications highlighted.

In the second chapter money was introduced as the facilitating mediation for capitalist circulation. It was considered in its roles as a *measure* of exchange value, as a medium of exchange and as the *immediate* object of wealth accumulation. In this chapter, too, the *Grundrisse* ideas were argued in a more readable form. Moreover, the discussion of circulation was more formal and analytical, especially in the section "The Metamorphosis of Commodities". (*CPE*, 87 ff.) The contradictions in the circulation process were revealed and the consequent immanent tendency for "commercial crises" to occur followed from this in defiance of James Mill's (and Say's) dictum. (*CPE*, 96-7.)

In this Section we consider two aspects of the *Critique* which are of importance in the context of our study. First, Marx's brief notes on value and the commodity in the history of political economy are discussed. Then, secondly, we consider Marx's analysis of circulation. His treatment of this facet of the "laws of motion" of capitalism was quite detailed in the *Critique*. In this book it reached its most advanced stage of development prior to the draftings of Capital, Book 11 in the 1860s and 1870s.

Marx included in the *Critique* a section entitled "Historical Notes on the Analysis of Commodities" (*CPE*, 52 ff). The theme of this section was the historical evolution of the idea that labour determined the value of commodities. The labour theory of value was traced from Petty to its highest form of development in the work of Ricardo. As Marx pointed out, Ricardo still left some issues against which criticism of his work had

been directed.

Since the determination of exchange-value by labour-time has been formulated and expounded in the clearest manner by Ricardo, who gave classical political economy its final shape, it is quite natural that the arguments raised by economists should be primarily directed against him. (*CPE*, 61.)

The polemic against Ricardo, as Marx saw it, had four main components which Marx argued confidently that he could transcend.

First, the labour theory of value appeared to be circular in its reasoning. This problem resulted from the difficulty of valuing the labour itself, but Marx felt that an adequate "theory of wage labour" would provide a solution. He probably had in mind here the key role played by his concept of labour power. Secondly, and integrally related to the first issue, was the problem of explaining how with a labour theory of value, the value of the commodity exceeded the value of the labour utilised to produce it. This differential would be explained by a proper "analysis of capital" which, no doubt, included the theory of surplus value. Thirdly, Marx recalled that commodities did not actually sell at their embodied labour values. There existed a "market price" which, he argued, reflected supply and demand determinants and was thus capricious. The link between value and "market price" would be provided by "the theory of competition". As we showed in Chapter 4, Section 4.7 above, Marx had really only partially solved this issue so far. The effects of competition which needed to be considered did not only concern supply and demand, but also competition of capitals and the generation of a uniform general rate of profits. At the level of circulation, supply and demand *per se* determined the short-run *market* price to which Marx referred here. Between this price and value, there existed the *price of production* which he had not yet formally analysed. This latter price *varied systematically* from value. Overall, Marx's statement of this third issue was quite superficial and did not embody the, albeit limited, advances made in the *Grundrisse*.

Fourthly, an explanation of the value of commodities produced in part by *natural* agents of production was required. Such an explanation would be provided by "the theory of rent", a theory which Marx had so far not developed.

These four key problems of political economy were carried forward by Marx into his next major attempt to draft the "Economics", the 1861-63 "Critique of Political Economy" manuscripts. The extensive and intensive critical study of received political economy that was included in these manuscripts is the focus of Part III of our study. Answers to the above four problems will emerge in much more detailed form during our analysis.<sup>13</sup>

In considering Chapter 2 of the *Critique*, "Money or Simple Circulation", we will be concerned to outline the "form of presentation" of the circulation problem as it emerged from the "investigations" of the *Grundrisse*. The chapter comprised an examination of the nature and role of money, including money as a measure of value, as a medium of exchange and as money *per se*, the last of these being Marx's expression for money as wealth or as a hoard. Marx also considered precious metals as money and the history of money in political economy along with money in a world-market setting. Our focus will be confined to those parts of the analysis which relate more or less directly to the involvement of money in the circulation process and to the potential for crises which emerged as a consequence of this process.

Commodity circulation was interpreted by Marx to comprise two notionally separate views of the circuit of capital. The symbols C for commodity, and M for money could be combined in the expression C-M-C. This implied that post-production, the embodied value of the commodity expressed initially as an *ideal* price was converted into the universal value expression, money, and that subsequently this money was converted back into commodity capital form in order to renew production. Thus Marx

emphasised here the role of money as the mediation in a commodity conversion involving a change of use value. The other view of *the same circuit of capital* was expressed as M-C-M. Here, the conversion process focussed upon money as the object rather than the commodity as in the previous view. For the holder of money, the mediation was the commodity in the sense that it provided the means through which additions to the money held could be achieved. In effect, this expression of the circuit involved capital in the production phase and the character of bourgeois production emerged in the symbols M-C-M', where M' exceeded M (*CPE*, 123).

In the C-M-C view, the act of selling, C-M, was followed by the act of purchasing, M-C. Both of these acts were simultaneously purchase and sale, but there was an important sense in which they formed a sequence in time for a particular capitalist. In this sequence he acted in turn as seller and buyer, with the significant thing being, in Marx's view, that the motivations for these two acts were different. In the first stage, the capitalist acted to realise value and surplus value, while in the second stage he acted to satisfy some physical need, either personal or industrial (*CPE*, 126). The completion of the sequence required a coincidence of actions by capitalists in their roles of sellers and buyers.

The circulation process as a whole comprised a mass of such sequences in an interdependent relationship. Marx summarised his interpretation of this when he wrote that

... the circulation of the world of commodities - since every individual commodity goes through the circuit C-M-C - constitutes an infinitely intricate network of such series of movements, which constantly end and constantly begin afresh at an infinite number of different points. But each individual sale or purchase stands as an independent isolated transaction, whose complementary transaction, which constitutes its continuation, does not need to follow immediately, but may be separated from it temporally and spatially. (*CPE*, 93.)

It was the mediation of money which isolated these transactions in spite of their complementarity. Money acted as suspended purchasing power in

this sequence (*CPE*, 126) and money was at the root of impediments to the completion of the C-M-C sequence which resulted in crises. As Marx argued it, the equivalence of C-M-C and barter C-C could not be sustained and this had significant implications for how capitalist circulation should be interpreted.

If, because the process of circulation of commodities ends in C-C and therefore appears as barter merely mediated by money, or because C-M-C in general does not only fall apart into two isolated cycles but is simultaneously their dynamic unity, the conclusion were to be drawn that only the unity and not the separation of purchase and sale exists, this would display a manner of thinking the criticism of which belongs to the sphere of logic and not of economics. The division of exchange into purchase and sale not only destroys locally evolved primitive, traditionally pious and sentimentally absurd obstacles standing in the way of social metabolism, but it also represents the general fragmentation of the associated factors of this process and their constant confrontation, in short it contains the general possibility of commercial crises, essentially because the contradiction of commodity and money is the abstract and general form of all contradictions inherent in the bourgeois mode of labour. Although circulation of money can occur therefore without crises, crises cannot occur without circulation of money. (*CPE*, 96.)

Now this situation existed in capitalism in spite of the apologetic dicta of James Mill and Say that supply creates its own demand which implied that the C-M-C sequence could not be broken in aggregate. Marx found in this only a "metaphysical equilibrium" which ignored the realities of capitalist circulation (*CPE*, 96-7).

Marx went on to consider some additional aspects of the role of money in the C-M-C sequence. He identified two distinct motives for holding money in this context and these were akin to the modern active and idle money balances motives. The money balance acquired as an immediate consequence of C-M was initially a store of value. In order to elaborate upon this idea, Marx adopted the distinction between "coin" - money in active circulation - and "money" - money in suspension from circulation (*CPE*, 125). There was in the process of circulation a continuous movement of "coin" into "money" balances and out again. The suspended balances of "money" could take two forms. One was a reserve fund of "coin" held to

facilitate exchange and thus akin to active balances, while the other was "hoards" which were idle balances and not part of the circulation process (CPE, 137-8).

"Hoards" were significant in Marx's view because they represented the initial, *potential* form of capital. They were, though, once removed from capital in that the motivation for hoarding *per se* was purely avarice rather than a desire to generate surplus value (CPE, 128-9). In hoarding, "money" itself was *the* object of "the passion for enrichment" (CPE, 132). However, Marx argued, the hoarding of "money" had two preconditions which were in contradiction. *Parsimony* was its *negative* precondition while *industry* was its *positive* precondition. (CPE, 128). That is, hoarding depended simultaneously upon the *desire* to hoard and upon the need *not* to hoard in order to obtain through production the where-with-all to do the hoarding. Thus, in a more complete analysis of capitalism which went beyond simple circulation, hoarding really had no role to play in explaining the processes involved. The contradiction of hoarding disappeared when what was "hoarded" became capital in the commodity forms of means of production and advances for labour (purchase of labour power).

Marx revealed considerable insight into the nature of capitalist circulation when he introduced the concept of money as a "means of payment" (CPE, 137 ff). This was an added dimension to the idea of money as a reserve fund of "coin", i.e. active balances. The point was that money as a "means of payment" acted to mediate in exchange without any immediate transfer of "coin". It thus entered circulation without being a "means of exchange" in the usual sense. Payment was deferred and money as a "means of payment" was the measure of the future liability. In this case, then:

The seller actually alienates the commodity but realises its price in the first place only nominally. He has sold the commodity at

its price, but the price will only be realised at a predetermined later date. The buyer buys as the representative of future money, whereas the seller sells as the owner of a commodity available here and now. (*CPE*, 139, cf.148.)

The consequence of this was that payment ultimately involved the transfer of "coin" and the reserve fund of "coin", active balances, would need to be built up to ensure that the debt contracted could be settled when due.

Payments in their turn necessitate reserve funds, accumulations of money as means of payment. The formation of reserve funds, unlike hoarding, no longer seems an activity extraneous to circulation, or, as in the case of coin reserves, a purely technical stagnation of coin; on the contrary money has to be gradually accumulated so as to be available at definite dates in the future when payments become due. (*CPE*, 147, cf.141.)

The real significance of this aspect of the role of money in circulation for the "laws of motion" of capitalism was that it further exacerbated the potential for crises, even though it also further expedited the circulation process (*CPE*, 141). The disruptive potential of the separation of the acts of sale and purchase was accentuated by the chain of debt liabilities that circulation on credit involved. With the need for these debts to be met in "coin", there emerged the possibility that forced realisation of commodities at reproductively inappropriate prices may ensue. This would cause the effective destruction of some capital. The potential of this aspect of crisis analysis was not realised by Marx at this stage and the argument remained impressionistic only (*CPE*, 141-2, 146).

As we have seen in this Section, the scope of the 1859 *Critique* was limited compared to that of the *Grundrisse* manuscripts from which it was derived. Two chapters only were included in this initial publication, their main themes being value and commodities, and money and circulation. The work remained what Maurice Dobb has termed an "overture" to Marx's "Economics" as a whole.<sup>14</sup> It was envisaged by Marx that he would follow the *Critique* with a "third chapter" dealing with capital. The manuscripts which grew out of his endeavours to write this "third chapter" are analysed in Part III of our study, beginning in the next Chapter.



## NOTES

1. Cf. the similar argument as it was presented in 1859, *CPE*, 20-1.
2. These "Reviews" are reprinted in Marx, *The Revolutions of 1848*, pp. 265 ff. See also Phillip O'Hara's discussion of these pieces, "A Critical Analysis of Marx's Theory of Crisis", Chapter 2.
3. "Marx's Falling Rate of Profit: A Dialectical View", *Canadian Journal of Economics*, 1X: 2, May 1967, p.233. In preparing the discussion which follows in this section, I benefitted considerably from Lebowitz's erudite analysis.
4. Cf. Lebowitz's emphasis on this facet of Marx's work, "Marx's Falling Rate of Profit ...", pp.237-9.
5. This term is used by Makoto Itoh to describe the main basis for Marx's thought about the capitalist crisis in the *Grundrisse*. See: "The Formation of Marx's Theory of Crisis", *Bulletin of the Conference of Socialist Economists*, IV:1, February 1975, *passim*.
6. Cf. Itoh's discussion of these points, "The Formation of Marx's Theory of Crisis", pp.3-4.
7. Itoh, "The Formation of Marx's Theory of Crisis", p.4.
8. On Marx's distinction between these systems, see Nicolaus' editorial footnote 19 to *G*, 103.
9. My comprehension of this part of the *Grundrisse* has been improved by reading Rosdolsky's treatment in *The Making of Marx's 'Capital'*, pp.329 ff.
10. "The Formation of Marx's Theory of Crisis", p.5.
11. The following analysis is taken from Lebowitz's paper "Marx's Falling Rate of Profit: a Dialectical View", pp.241 ff and Appendix, 251 ff.
12. "Marx's Falling Rate of Profit: a Dialectical View", pp.243-4, 252-3.
13. The four weaknesses of Classical political economy as Marx saw them have been considered in more detail in two previous studies. Bernice Shoul in "Karl Marx's Solutions to Some Theoretical Problems of Classical Economics", *Science and Society*, 31:4, 1967 argues that the four problems represent a framework from which Marx moved into a "completion" and "criticism" of Classical political economy. Howard and King in *The Political Economy of Marx*, Chapter 4, adopt a similar approach.
14. "Introduction" to *CPE*, p.5.

PART 111

MARX'S CRITICO-HISTORICAL ANALYSES.

## CHAPTER 6

## VALUE AND DISTRIBUTION THEORY BEFORE RICARDO

## 6.1 INTRODUCTION

Marx set about drafting his "third chapter" on capital in 1861. The manuscript upon which he worked he entitled "Critique of Political Economy", reflecting its status as an immediate extension of the 1859 *Critique* book and as a development of the foundations provided in the *Grundrisse* manuscripts. Over the following years, 1861-63, the manuscripts written went beyond the initial intention of being a "third chapter" to the *Critique* and they grew to occupy 23 notebooks. Over half of the material comprised a concentrated endeavour by Marx critically to assess received political economy in the light of his own paradigm formulated in the *Grundrisse*. The balance of the manuscripts comprised materials which represented the first developments of Books I and III of *Capital*.

When Marx began to write the "Critique", the initial sequence of the "third chapter" was to treat first, transformation of money into capital, secondly, absolute surplus value, and thirdly, relative surplus value. In a fourth section there was to be a combined analysis of absolute and relative surplus value, but this was not immediately written. Having filled notebooks I to V of the manuscripts, Marx switched his attention to the topic "(5) Theories of surplus value" in notebook VI. Instead of being a brief historical excursus along the lines of those sections of the *Critique* book which treated value theory and the theory of money (*CPE*, 52 ff and 157 ff), the topic occupied notebooks VI to XV, plus some related essays in notebooks XVIII and XX to XXI. It is these parts of

the manuscripts that are available in published form as *Theories of Surplus Value* and which provide the materials for our next seven Chapters.

There is no extant evidence which explains Marx's sudden turn to such a sustained critique of political economy, but the results were highly significant for the evolution of his own economic analyses. This evolution proceeded as an integrated consequence of the critique in "Theories of surplus value". Geoffrey Pilling's assessment of the *raison d'etre* of this work is worth quoting in full.

Marx writes this work always 'critically', from the vantage point that is of his own theory (historical materialism), just as the anatomy of the ape must be studied from the standpoint of its higher, further development, in man. He is interested not merely in tracing the origin of his own ideas, in paying intellectual debts, as it were. Nor is he interested only in exposing the limitations of the classical school - of which he was fully conscious. He aims, throughout the *Theories*, to probe the contradictions in the writings of Smith, Ricardo, etc., because he sees in them only a 'purer', more abstract and therefore heightened expression of the real economic contradictions of the capitalist system which was their real underpinning.<sup>1</sup>

This passage reflects the interpretation that in "Theories of surplus value" Marx was basing his critique upon the preformed analyses of the *Grundrisse*. The precise form of this theoretical base we outlined in our previous three Chapters. It represented a break with the received paradigm of political economy and it was reinforced and extended by means of the critique. The relevance of the critique, moreover, was the consequence of political economy's abstract manifestation of the *apparent* operations and social relations of the capitalist economy. What political economy had failed to do was to articulate these apparent forms to their *essential foundations*. This failure was documented in detail by Marx in "Theories of surplus value".

Marx's critical history was basically ordered chronologically. There were some exceptions to this and these indicated significant features of the progressions and regressions of political economy over the years.<sup>2</sup>

The critical analysis began with the work of Sir James Steuart. His

was the last and most formal espousal of the "Mercantilist" idea that non-labour incomes arose from selling commodities at prices above values. Value theory itself and non-labour incomes had been dealt with in political economy prior to Steuart's work. In some later historical essays in the "Critique" notebooks, Marx considered the work of Petty, Locke, North, Massie and Hume as indicative of this prior treatment. However, while these writings were significant, a critique of Steuart's work was sufficient to argue the rejection of the notion that profit was generated in circulation.

The Physiocrats were in some senses in advance of Adam Smith and in others behind him. Marx's critique of their work, especially as presented by Quesnay, was thus divided into two parts. First, there was a general discussion of their notion that the economic surplus originated in production and this preceded the critique of Adam Smith's work but came after the critique of Steuart's work in spite of chronological relationships. The Physiocrats had located the generation of the surplus only in *agricultural* production and confined their analysis to the physical, use-value dimension. Secondly, Marx dealt with the Physiocratic concept of reproduction via production and circulation. Marx noted this piece as a "digression", and it really was, for in none of the works with which he was concerned was the potential of this Physiocratic idea recognised. Indeed, it was Marx himself who was first fully to appreciate the potential of the "model" which Quesnay had provided, although this was not reflected in "Theories of surplus value" itself (see below, Chapter 11, Section 11.2).

After a detailed critique of Adam Smith's *Wealth of Nations* in its essentials, Marx turned to a critical discussion of the "Law of Rent" as presented by its originators and the vulgar Karl Rodbertus whose work Marx considered to be a fallacious anachronism. The critique of David Ricardo's *Principles of Political Economy and Taxation* really formed the centrepiece of the whole critical history. It is interesting to note, though, that

Adam Smith's theories of "cost-price" and rent were dealt with *after* those of Ricardo in each case. Marx gave no indication as to why this ordering was followed, except to hint that it enabled him to reveal the origins of some of the faulty analyses posited by Ricardo (*TSV*, 11, 216).

Beyond about 1830, Marx considered that political economy had generally regressed into a vulgar theory which emphasised the very worst of the legacy left by Ricardo. The *potential* for an essential comprehension of the capitalist economy which Marx had identified in the work of the Physiocrats, Adam Smith and Ricardo was not realised. Ricardo's pseudo-disciples, such as James Mill, McCulloch and John Stuart Mill, along with his more obvious critics, especially Malthus, Torrens and Bailey had obfuscated this potential. By contrast, some more obscure writers, outside of the mainstream of political economy after Ricardo, were found by Marx to have formulated ideas in accord with his own. These included Ramsay, Cherbuliez, Richard Jones and those who had loosely applied Ricardo's analyses to the cause of proletarian advancement, especially Bray, Ravenstone and Hodgskin.

Our analysis of the critico-evolutionary content of "Theories of surplus value" centres around the themes developed in the *Grundrisse* core outlined in the previous two Chapters. The analysis of value, surplus value and phenomenal distribution forms and the application of these categories to the formulation of the "laws of motion" of capitalism is, we argue, the most coherent framework within which to present Marx's critico-historical preparations for *Capital*. To some extent, then, we have re-ordered Marx's own treatment in accordance with this objective.

## 6.2 MARX AND THE EARLY NOTION OF ECONOMIC SURPLUS.

### 6.2.1 THE BRITISH FORERUNNERS OF ADAM SMITH.

Except for the Physiocrats, Marx's critique of the forerunners of Adam Smith was quite brief. In the case of the British writers, the main point that he wished to convey was made by reference to the work of Sir James Steuart. Marx focussed upon Steuart's *Principles of Political Economy* published in 1767 and this critique opened the discussion in "Theories of surplus value". The brief discussions of the work of Petty, Locke, North, Massie and Hume were undertaken much later in the last three notebooks of the "Critique".

The points that Marx wanted to emphasise about most political economy prior to Adam Smith, and his critique of Steuart as the appropriate means to this end, were indicated in the following passage:

Before the Physiocrats, surplus value - that is, profit in the form of profit - was explained purely from *exchange*, the sale of the commodity above its value. Sir James Steuart on the whole did not get beyond this restricted view; he must rather be regarded as the man who reproduced it in scientific form. (*TSV*, 1, 41).

Steuart's work was the "*rational* expression of the Monetary and Mercantile systems" (*TSV*, 1, 43) in its recognition that the "profit upon alienation" which appeared in exchange was not the creation of new wealth.

Steuart distinguished "positive profit" from "relative profit".

The former manifestation of the economic surplus Marx interpreted to involve a net addition to *use value* by way of the production process. This was a generalised Physiocratic idea. "Relative profit" was argued by Steuart to involve a "vibration" of aggregate produced wealth (in a flow sense) between the parties to exchange. *Some* traders would gain by selling at above "real value" or the "price of manufacture" which Steuart related to production. These value categories included the prime cost of inputs, labour and raw materials, plus replacement cost of instruments of production. The actual price of the commodity then comprised "real value" plus "profit upon alienation", the latter depending upon the state of excess demand.

Marx emphasised that in Steuart's analysis, the sale of a commodity

*at its value* would allow no profit to be realised. There was thus no *explanation* of profit in such an approach. However, in a passage paraphrased by Marx (*TSV*, 1, 42), Steuart separated two components of the labour cost of production in "real value". He added the living labour performed to the subsistence cost of the labour. From this, there would seem to be a surplus value in roughly Marx's sense included in "real value". Marx did not make this point and only stressed the "vibration" idea in which some traders gained at the expense of others. This "redistribution" sort of approach to the formation of the surplus by way of prices which differed from values at least could be argued to be *related* to Marx's own value-price of production transformation process.

On a more general level, Marx found in Steuart's work a consciousness of the emerging *capitalist* form of production. The separation of means of production ownership from labour, with its consequent *class* implications, was argued to be occurring in agriculture. This, Steuart recognised, would be the precedent for the establishment of capitalist manufacturing. Steuart's work thus reflected the changing production environment which Adam Smith took as his starting point (*TSV*, 1, 43), and, for this additional reason, it formed also an appropriate critical opening for Marx's study of the history of political economy.

Of the other British forerunners of Adam Smith, Marx had cited Sir William Petty as the British founder of "Classical" political economy because of his espousal of a rudimentary labour theory of value (*CPE*, 52 and n). Working from Petty's 1660s writings onwards, Marx encountered the works of John Locke, Sir Dudley North, Joseph Massie and David Hume, all of whom had presented some views about non-labour income formation.<sup>3</sup> None, however, had provided any *explanation* of the origins of interest and profits.

What caught Marx's attention in Petty's work<sup>4</sup> was his use of labour activity as the basis for explaining exchange value. Petty combined this



with the concept of a subsistence commodity wage and argued that the value produced by the labour activity might exceed this wage thus leaving a surplus. The immediate manifestation of this surplus in a seventeenth century production context was as the rent of land. By arguing that land could be valued by capitalising expected rents, Petty was able to deduce interest as a special form of rent, viz. the rent of money capital used to buy land. Profit on capital was not posited by Petty as a separate category, although he did appreciate that capital stock was the consequence of past labour.

Locke and North both owed some of their theoretical developments to a reading of Petty's work.<sup>5</sup> The outstanding thing about Locke's work as far as Marx was concerned was his argument that interest and rent, the forms of surplus value emphasised, had their origins in the action of private property rights on the value of the product of another man's labour. Marx wrote:

... ownership of a greater quantity of conditions of labour than one person can himself put to use with his own labour is, according to Locke, a *political* invention that contradicts the law of nature on which private property is founded. (*TSV*, 1, 365.)

In Locke's thought, interest was conceived as the rent on money in a setting where unequal holdings of wealth enabled those with too much for their own application to trade to lend it out to others. This was analogous to having too much land to work and letting the excess to a tenant farmer from whom rent of land was appropriated. (*TSV*, 1, 367.) The moral basis from which Locke worked was that, *naturally*, property holding should be limited to that which could be utilised by its immediate owner.

Locke understood that, in itself, money capital was barren. It was its application to productive activity carried out by labour which enabled value to be generated. The immediate return *to the person who applied capital* was called "Profit" by Locke, and it was rooted in that person's

labour. Money lending, Locke wrote, "transfers that Profit, that was the Reward of one Man's Labour, into another Man's Pocket". (Quoted by Marx, *TSV*, 1, 367.) The idea that interest was paid out of profit was implied by Locke, but the argument was not elaborated upon.

For Marx, Locke's significance was summarised thus:

Locke's view is all the more important because it was the classical expression of bourgeois society's ideas of right against feudal society, and moreover his philosophy served as the basis for all the ideas of the whole of subsequent English political economy. (*TSV*, 1, 367.)

In Locke's work, Marx found a transition emerging from the feudal right of appropriation based upon land holding to the capitalist right based upon ownership of *money* capital which could be used to finance instruments of production. The other facet of the above summary reflected a further important role played by Locke. The "philosophy" referred to here was Locke's empiricism. Espousal of this philosophical approach predisposed English political economy to a mesmerisation with appearances.<sup>6</sup> As we shall argue throughout this Part of our study, Marx found this methodological constraint to be crucial in political economy's failure to provide an analysis of capitalism which exposed its *essential* nature and operations.

Marx argued that the work of Petty, Locke and North reflected a reaction by merchant and industrial capital against the dominance of the feudal, landed-property regime. He saw these writers as endeavouring to justify interest as merely a different form of rent (*TSV*, 1, 368-9).

Marx's point was that interest reflected

... the first form in which *capital* starts its revolt against *landed property*, as in fact *usury* was one of the principal agents in the accumulation of capital - i.e., through its co-proprietorship in the landlord's revenues. But industrial and commercial capital go more or less hand in hand with the landlords against this outmoded form of capital. (*TSV*, 1, 369.)

This reiterated the "transition" idea noted above. Money lent at interest marked the beginning of *capitalist* trade and production. Initially, the production financed was agricultural and interest was paid out of the surplus

manifested as rent. The emergence of industrial and commercial capital followed, and in these cases money capital was applied *directly* by its owners to production and circulation. If money lenders were involved in these latter processes, then the surplus created would have to be shared with them in the form of interest also. *Historically*, money capital lent at interest may have become outmoded in the sense that accumulation was possible independently of it, but Marx was well aware of the remaining significance of *credit* capital in the organisation of capitalist production.

In the work of Massie and Hume,<sup>7</sup> Marx found a critique of Petty's and Locke's focus on the market determination of the rate of interest. Massie and Hume argued more explicitly that the rate of interest reflected the use that was made of capital to generate profit. Thus, the *demand* for money capital became the primary factor affecting the rate of interest whereas, while the earlier writers had been aware of this linkage, they had emphasised money *supply*. For example, North had expressed the linkage in the following way in his *Discourses upon Trade etc.*:

No Man is richer for having his Estate all in Money, Plate, etc., lying by him, but on the contrary, he is for that reason the poorer. That Man is richest, whose Estate [is] in a *growing condition*, either in Land at Farm, Money at Interest, or Goods in Trade. (Quoted by Marx, *TSV*, I, 370.)

The mere formation of hoards gained the wealth owner nothing. It was the utilisation of his wealth as capital which generated additional wealth. However, in this passage of North's, we note that the autonomy of "Money at Interest" was sustained separately from the two expressions of its *use*. The notion that interest would have to be paid out of a *production* surplus was thus not obvious.

Although written after the main body of critique in "Theories of surplus value", Marx's conclusion about the work of Massie and Hume was significant in regard to their position in the evolution of political economy.

Massie, even more definitely than Hume, presents interest as a mere *part of profit*; both attribute the fall in interest to the

accumulation of capitals (Massie [speaks] especially of competition) and the fall in profits resulting from this. Both [say] equally little about the *origin of the Profit of trade* itself. (*TSV*, 1, 377.)

Thus, the work of Massie and Hume reflected the shortcoming that was general amongst the British forerunners of Adam Smith. With the aid of his Continental forerunners, Smith was able to locate the origin of the surplus in *production*.

#### 6.2.2 THE CONTINENTAL FORERUNNERS OF ADAM SMITH.

Marx's critical analysis of the Continental political economists centred upon the work of the Physiocrats, especially that of Francois Quesnay, and that of Anne Robert Jacques Turgot. Unfortunately, Marx characterised Turgot's work as essentially Physiocratic, although as a more fully developed form of the doctrine. This led him to understate the *individual* contributions to political economy made by Turgot.<sup>8</sup>

In his critique of the Physiocrats and Quesnay, Marx focussed initially upon their contribution to the theory of production. He noted two aspects of this theory in particular. First, they had given *capital* a prominent role in the production process.

The analysis of *capital*, within the bourgeois horizon, is essentially the work of the Physiocrats. It is this service that makes them the true fathers of modern political economy. (*TSV*, 1, 44)<sup>9</sup>

Secondly, they had emphasised that *the* significant phenomenon of capitalist production that had to be explained was the generation of an economic surplus. It was the *raison d'etre* of capitalism.

Thus the Physiocrats saw the production of surplus value as the essence of capitalist production. It was this phenomenon that they had to explain. (*TSV*, 1, 62.)

In their approach to this problem, moreover, they made a very real analytical advance in arguing that the origin of the surplus was to be found in production.

The Physiocrats transferred the enquiry into the origin of surplus-value from the sphere of circulation into the sphere of direct production, and thereby laid the foundation for the analysis of capitalist production. (*TSV*, 1, 45.)

Circulation was ascribed its correct role in the Physiocrats' analyses, that of realising reproduction. Marx recognised the brilliance of the *Tableau Economique* devised by Quesnay in this regard (*TSV*, 1, 344), but its detailed *application* in his own political economy was not to emerge until mid-1863.<sup>10</sup>

In spite of these important contributions to the analysis of capitalist production and reproduction, the Physiocrats were unable fully to realise the potential of their work. They were severely constrained by the object of their analysis being a form of capitalism in which agricultural production predominated. As Marx put it: "while feudalism is ... made bourgeois, bourgeois society is given a feudal semblance" (*TSV*, 1, 50). The fundamental Physiocratic thesis which followed from this was that only agricultural production could generate an economic surplus. This surplus was appropriated by landowners as rent, and was argued to be a bounty of nature, a part of the "Natural Order" which framed economic and social activity for the Physiocrats. "For them", Marx noted, "the bourgeois forms of production necessarily appeared as natural forms" (*TSV*, 1, 44).

Within this analytical framework, though, Marx did find a perceptive interpretation of the involvement of labour in the generation of the economic surplus. He argued in this context that

... the foundation of modern political economy, whose business is the analysis of capitalist production, is the conception of the *value of labour power* as something fixed, as a given magnitude - as indeed it is in practice in each particular case. (*TSV*, 1, 45.)

The Physiocratic notion was that the wages of labour should be confined to the "*strict necessaire*" in commodity (use-value) terms. The "*strict necessaire*" was, in effect, a *commodity* value of labour power rather than an exchange value form. The Physiocrats did not give very much attention

to the latter value form, being content to posit a *natural* "bon prix" as the mediation between commodities in exchange. Thus

... without being in any way clear as to the *nature* of value, they could conceive the value of labour power, so far as it was necessary to *their* inquiry, as a definite magnitude. (TSV, 1, 45, emphasis added.)

On the basis of this conception, Marx argued, the Physiocrats had formulated an essentially correct principle of surplus value couched in commodity (use-value) terms.

The agricultural labourer, depending on the minimum of wages, the *strict necessaire*, reproduces more than this *strict necessaire*, and this more is rent, *surplus value*, which is appropriated by the owners of the fundamental condition of labour - nature. ... But the Physiocrats only stuck to the point that the productivity of the earth enables the labourer, in his day's labour, which is assumed to be a fixed quantity, to produce more than he needs to consume in order to continue to exist. The surplus value appears therefore as a *gift of nature* .... (TSV, 1, 50-1.)

In this formulation, the correct concept of productive labour was implied. For Marx, this was labour that, in production, generated surplus value.

Hence for the Physiocrats agricultural labour is the only *productive labour*, because it is the only labour that *produces a surplus value*, and *rent* is the *only form of surplus value* which they know. (TSV, 1, 46.)

The Physiocrats did not transfer this principle of surplus value to capitalist production in general. Because only "Nature" was productive, non-agricultural production was "sterile" in that it merely processed and transformed use values. The upshot of this was their failure to recognise that it was *capital* which *facilitated* the production of the surplus and that this was independent of the particular sector of production involved. Moreover, they also did not accord *profit* its correct status as the most immediate manifestation of the surplus in capitalist production.

*Profit* on capital in the true sense, of which rent itself is only an offshoot, ... does not exist for the Physiocrats. Profit is seen by them as only a kind of higher wages paid by the landowners, which the capitalists consume as revenue (and which therefore enters into their costs of production in the same way as the minimum wages of the ordinary workmen) .... (TSV, 1, 47.)<sup>11</sup>

Turgot's work went beyond this and recognised that the surplus was associated with capitalist production in general, and that profit was the immediate return on advances.

In Turgot's *Reflections on the Formation and Distribution of Wealth* (1766),<sup>12</sup> Marx found what he thought to be the fullest development of the Physiocratic system (*TSV*, 1, 54). While Turgot's work was clearly related to Physiocracy, his appreciation of the nature of capitalist production was quite a deal more sophisticated. Marx did not reveal any recognition of this and his treatment of Turgot was superficial at best. Not only did Turgot's work involve more than was in the *Reflections*,<sup>13</sup> but also Marx did not reveal the scope of the analyses included in that work. Marx gave no indication as to why this treatment was so cursory.

In "Theories of surplus value", Marx quoted only eleven passages from the *Reflections* and his whole discussion was confined to six printed pages (*TSV*, 1, 54 ff). Marx began his critique of Turgot by noting that the surplus generated in agriculture could be related to labour. In effect, the surplus comprised surplus labour and Marx found Turgot to have expressed "the essence of surplus value" (*TSV*, 1, 55). Through the existence of this surplus labour, the capitalist in agriculture could realise in exchange "*unpaid value*" (*TSV*, 1, 55).

Thus ... surplus value is explicitly stated to be the part of the cultivator's labour which the proprietor appropriates to himself without giving any equivalent, and he sells the product of his labour, therefore, without having bought it. (*TSV*, 1, 57.)

This surplus was still essentially Physiocratic in the sense that it was only generated in agriculture. Turgot argued, though, that *all* production required the advance of capital and that some profit would be expected by the capitalist. Any employment of capital should more or less return the yield foregone in not using the capital to purchase land or lend at interest. This profit would be reckoned after the replacement of stock and the wages of the capitalist had been allowed for. However, the whole

of the "stipendiary industrial class" was still viewed by Turgot as being supported by the expenditure of the agricultural surplus, rent. He provided no explanation of how profit was generated beyond the notion that it was effectively paid out of rent.

In his critique of the forerunners of Adam Smith, Marx exposed their lack of any satisfactory explanation of non-labour incomes. The work of the Physiocrats and Turgot was, though, in advance of the British forerunners in this regard. Ronald Meek has formulated two key developments that were required for political economy to move from an agricultural capitalism as its object to a general capitalist economy. The shift implied that profit would replace rent as the immediate phenomenal form of surplus value.<sup>14</sup>

First, a theory of value would be required which went beyond the commodity-use value dimension. Physical costs and outputs were not appropriate to the analysis of the heterogeneous production of the capitalist economy. Adam Smith attempted to formulate such a theory of value and it was developed further by Ricardo. Beyond Ricardo, Marx argued, regression rather than progression was evident. Secondly, a theory of rent was needed in which rent was revealed as a derived form of income rather than as an original form. Marx traced the history of rent theory in some detail in recognition of its significance for a critical understanding of antecedent distribution theory. These two developmental requirements as Marx found them are analysed in the balance of this Chapter and in the next Chapter of our study.

### 6.3 VALUE AND DISTRIBUTION THEORY IN ADAM SMITH'S *WEALTH OF NATIONS*.

#### 6.3.1 INTRODUCTION TO MARX'S CRITIQUE OF ADAM SMITH.

By the time Marx came to formulate his interpretation and critique of the *Wealth of Nations* in "Theories of surplus value", he was already



well acquainted with its content. He read the book as early as 1844 and had used its analyses as the main basis for his portrayal of capitalist political economy in the *Economic and Philosophic Manuscripts* (CW, 3, 229 ff). There were also numerous references to it in the *Grundrisse* manuscripts. In "Theories of surplus value", the essential core of the work was subjected to a critique in depth and it was the second most significant critique in Marx's history of political economy after that of Ricardo's *Principles*. Marx's critique was directed at both the methodology and substance of Adam Smith's work.

The critique of Smith occupied much of notebooks VI to IX and was taken up again in notebooks XI and XII. The former part contained Marx's analysis of Smith's value theory and a lengthy analysis of various theories of productive and unproductive labour which centred around Smith's views on the subject. Smith's theory of "cost price" was dealt with in notebook XI and his theory of rent in notebook XII.

Marx's views about Smith's methodology in political economy were expressed in the following passage:

Smith himself moves with great naivete in perpetual contradiction. On the one hand he traces the intrinsic connection existing between economic categories or the obscure structure of the bourgeois economic system. On the other, he simultaneously sets forth the connection as it appears in the phenomena of competition and thus as it presents itself to the unscientific observer just as to him who is actually involved and interested in the process of bourgeois production. One of these conceptions fathoms the inner connection, the physiology, so to speak, of the bourgeois system, whereas the other takes the external phenomena of life, as they seem and appear and merely describes, catalogues, recounts and arranges them under formal definitions. With Smith both these methods of approach not only merrily run alongside one another, but also intermingle and constantly contradict one another. (TSV, 11, 165.)

Marx's fundamental stance on methodology was that a "scientific" attempt to comprehend the capitalist economy would have to present more than description. The *phenomena* of capitalism had to be linked to their *essential* nature which did not necessarily appear immediately to an observer. In the *Wealth of Nations*, Marx found Smith confused about these two facets of

methodology. Smith's argument shifted between "anatomical" description and "physiological" comprehension. In espousing both approaches, without explicit recognition of them as separable and different, Smith often involved himself in contradictions that he could not resolve.

Marx had considerable sympathy for Smith, though, and admired the comprehensiveness of the *Wealth of Nations*. Smith had attempted the exoteric task of formulating a coherent set of categories with which to describe capitalist phenomena. He had simultaneously attempted to probe the more essential, esoteric nature of the system, but the two aspects of his work were not articulated and the latter was left implicit to a great extent.

It was from this confusion of methodologies that one significance of Smith's work for the history of political economy followed. It was Marx's view that

Adam Smith's contradictions are of significance because they contain problems which it is true he does not solve, but which he reveals by contradicting himself. His correct instinct in this connection is best shown by the fact that his successors take opposing stands based on one aspect of his teaching or the other. (TSV, 1, 151.)

In this way, the *Wealth of Nations* provided Marx with a critical appreciation of the roots of some of the controversy in nineteenth century political economy. The unresolved contradictions in Smith's work were subsequently taken up and falsely "resolved" by rejecting one side or other of the contradiction. Marx devoted considerable effort to the elaboration of these contradictions in "Theories of surplus value" and to revealing the inadequacies of such pseudo-resolutions. He argued that some resolutions could be found by appropriate analysis. Other resolutions would only be possible through the dialectical process of historical change, for the contradictions with which they were concerned were inherent in the capitalist system.

Especially was value theory left in a state of confusion by Adam Smith. He failed adequately to formulate a value category which would be

appropriate for the system of capitalist production in which *profit* had to be realised as part of the sale proceeds from a commodity. For Smith, the existence of capital seemed to invalidate the embodied labour theory of value. Only a value form in which all revenue costs were included at their "natural" rates and the measure of which was labour commanded seemed appropriate.

Marx found that the embodied labour theory contradiction posited by Smith was taken up but only partially resolved by Ricardo. Malthus followed the alternative value hypothesis adumbrated by Smith and subsequent analyses of value became generally more and more convoluted. Having resolved the puzzle for himself, Marx analysed in some detail the value theory controversy which ensued after the *Wealth of Nations*.

Smith's confusion over value led him into difficulty with the theory of distribution to which value seemed so intimately related. The "natural"-rate approach was not especially productive as it remained locked into the level of phenomena and could *explain* nothing about the *essential* nature of capitalist distribution. Be this as it may, Marx found in Smith's analyses the legacy of Physiocracy which expressed the key proposition that the non-labour revenues of capitalism came from a surplus generated in production. Smith was often Physiocratic, too, in his expression of agricultural dominance in the economy, but Marx chose to ignore this aspect of the work (*TSV*, 1, 70). Marx proceeded to emphasise Smith's contribution in applying the idea of a production generated surplus to all sectors.

We see the great advance made by Adam Smith beyond the Physiocrats in the analysis of surplus value and hence of capital. (*TSV*, 1, 85.)

As we shall show later in this Chapter (Section 6.3.2 below), Marx identified in Smith's analysis an *implied* theory of surplus value which involved the application of capital and labour in a specific relationship to all sectors of production. Smith did not, though, in his explicit

analysis, break free from the phenomenal forms of surplus, viz. profit, interest and rent.

In Marx's own theory of value and distribution, the distinction between productive and unproductive labour was important. Adam Smith had formulated some views on this distinction. Especially had he adopted from the Physiocrats the valid principle that only labour which generated a surplus beyond its own value could be considered productive. But Smith's treatment of the distinction was not without its confusions and Marx was able to clarify his own ideas by a critique of this part of Smith's work.

A further issue to which Smith had not, in Marx's view, given adequate attention was the *reproduction* of the capitalist mode of production. In Smith's analysis, there was no provision for the regular replacement of non-wage capital. In his critique of Smith's handling of this vital analytical issue, Marx made his first attempt to formulate a model of simple reproduction. The attempt was of limited success only and Marx did not reveal a great degree of appreciation of the *Tableau Economique's* message at this stage (see below, Chapter 11, Section 11.2).

### 6.3.2 VALUE AND ADAM SMITH'S IMPLIED PRINCIPLE OF SURPLUS VALUE.

As Adam Smith saw it, the argument that embodied labour content provided a basis for explaining exchange value could not be sustained once the value of the commodity did not accrue wholly to the worker. In *capitalist* production, the profit which accrued to the capitalist had to form part of exchange value along with the wage cost of labour. It was apparent from this that value could only be explained by summing the values shared amongst those involved in the production of the commodity.

Marx agreed with the labour-production approach to value determination in its *orientation* but not in its details. He concurred with Smith that the value of "labour", that wage which provided for subsistence and

reproduction, was a fundamental component of value theory. But, along with Ricardo, Marx did not see any need for a shift of value theory between the pre-capitalist and capitalist economies. Value determination was not a function of the form of distribution of that value. Marx's thought on this was made clear in two passages.

The relation between the labour time contained in commodities A and B is in no way affected by how the labour time contained in A and B is appropriated by various persons. (*TSV*, 1, 74.)

And:

... the distribution or appropriation of value is certainly not the source of the value that is appropriated. If this appropriation did not take place, and the workman received the whole product of his labour as his wage, the value of the commodities produced would be just the same as before, although it would not be shared with the landowner and the capitalist. (*TSV*, 1, 94.)

The root of Smith's problem with value theory, as Marx saw it, was his failure to formulate a correct concept of the value of "labour". Smith had not comprehended that the capital-labour "exchange" in which the capitalist purchased labour services was not appropriately classified as an *exchange* at all. The capitalist purchased a *capacity* to labour for which he paid a "subsistence" equivalent in value terms. Without the category labour power, Smith was unable correctly to analyse the capital-labour relationship. Commodities could exchange at their embodied labour values in an economy which included the receipt of non-labour income. Smith's analysis had foundered, Marx argued, upon the distinction between the "quantity of labour" and the "value of labour". The *value* of labour embodied in a commodity had to be differentiated from the quantity of labour embodied.

In a direct production economy, the value of labour to the worker *was* the value of the commodity he produced. Exchange may ensue on this basis with materialised labour and living labour having a quantitative identity. In this situation, Marx argued:

... a definite quantity of living-labour time would always command a quantity of commodities which represents an equal amount of materialised labour time. (*TSV*, 1, 72.)

Once the means of production to be used by labour were owned by one or more classes who employed that labour as a separate class, then the situation was different.

A definite quantity of living labour does not command the same quantity of materialised labour, or a definite quantity of labour materialised in a commodity commands a greater quantity of living labour than is contained in the commodity itself. (*TSV*, 1, 72.)

According to Smith, under these circumstances, the embodied labour theory of value was invalidated. His attempt to formulate an alternative theory, though, led him into a most unsatisfactory analysis of the relationship between value and distribution.

In the *Wealth of Nations*, Book 1, Chapter VI, Smith attempted to find a causal explanation for value generated in capitalist production. His attention centred upon the *composition* of value implied by the "natural" distribution of value produced. Marx quoted the following passage from the *Wealth of Nations* in demonstrating Smith's appreciation of the basic rationale of capitalist production:

As soon as *stock has accumulated in the hands of particular persons*, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, *in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials.* (*TSV*, 1, 78)<sup>15</sup>

Marx noted that in this passage, profit emerged through value added by labour prior to exchange. This idea was reiterated in a further passage which he quoted from the *Wealth of Nations*:

The *value which the workmen add to the materials*, therefore, resolves itself ... *into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced.* (*TSV*, 1, 79.)<sup>16</sup>

It was thus evident that Smith recognised that profit originated in production and was realised in the sale of the commodity. In Marx's view, though, these two passages implied also the principle of surplus value.

An analysis of these passages revealed that Smith had indeed posited the ingredients for devising the idea of surplus value. What he argued,

in effect, was that production involved labour adding value to materials. When the total value of the commodity was realised in sale, *the part of value which labour had added* was resolved into wages and profit. Two things followed from this argument, Marx found. First, Smith here contradicted his view that in capitalist production embodied labour could not explain value. This was the only possible source of value in these passages. Secondly, the value of labour in terms of its wage was argued to be less than the value of labour embodied in the commodity. The difference comprised profit on capital advanced. For Marx, this was a concise statement of the principle of surplus value. The capitalist appropriated profit by paying only for part of the labour actually performed. Moreover, Marx also found this principle applied to the generation of *rent* (TSV, 1, 82) in the *Wealth of Nations*. Marx summarised the above argument in the following passage.

Thus Adam Smith conceives *surplus value* - that is, surplus labour, the excess of labour performed and realised in the commodity *over and above* the paid labour, the labour which has received its equivalent in wages - as the *general category*, of which profit in the strict sense and rent of land are merely branches. Nevertheless, he does not distinguish surplus value as such as a category on its own, distinct from the specific forms it assumes in profit and rent. (TSV, 1, 82.)

Smith himself never recognised, or at least never developed, the potential of the analysis found in the two passages quoted by Marx. It did not seem to concern Smith that he switched, in the same chapter of the *Wealth of Nations*, from value *resolving into* distribution components to value being *comprised of* wages, profit and rent. Marx commented upon this:

It would be correct to say that the magnitude of value of the commodity determined independently of wages and profit, or its natural price, can be resolved into four shillings wages (the price of the labour) and one shilling profit (the price of the profit). But it would be wrong to say that the value of the commodity arises from adding together or combining the price of the wages and the price of the profit which are regulated independently of the value of the commodity. (TSV, 1, 96.)

We shall consider Marx's discussion of this problem of Smith's analysis in the next Section of our study (Section 6.3.3 below).

In dealing with the critical history of the theory of surplus value, Marx was concerned to include some discussion of the distinction between productive and unproductive labour. For Marx, this dichotomy was a vital one. Productive labour employment was the origin of surplus value and the very basis for the continued existence of capital (*TSV*, 1, 153).

Marx noted that both Mercantilist and Physiocratic writers had made this distinction in effect. In some of their works it was argued that labour was productive if its commodity output exceeded the "cost" of producing the output. For the Mercantilists, this meant that in foreign trade, money returned from the export of the commodities produced should exceed the money cost of production. For the Physiocrats, the notion applied to labour in agriculture where the commodity (use value) production exceeded the commodity input. Marx thus found that even though the Physiocrats had not argued the concept of surplus value correctly, they had viewed productive labour as that which produced the surplus. This was, in principle, correct (*TSV*, 1, 153-4).

It was Adam Smith who generalised the concept of productive labour in the capitalist production and accumulation context.<sup>17</sup> Marx found in the *Wealth of Nations* two conceptions of productive labour. One of these was the essentially "correct" conception, in the light of Marx's own, that labour was productive if it generated an output *value* which exceeded the input *values*, i.e. labour that generated *surplus value*. In this definition, Smith followed the basic principle which had been suggested by earlier writers and was consistent with his implied notion of surplus value.

This conception of productive labour follows naturally from Adam Smith's view of the origin of surplus value, that is, of the nature of capital. In so far as he holds to this conception he is following a course that was taken by the Physiocrats and even by the Mercantilists; he only frees it from misconceptions, and in this way brings out its inner kernel. (*TSV*, 1, 153.)



The "inner kernel" was that productive labour was at the root of surplus value generation and capital accumulation. This befitted the context of Smith's discussion for, as John Henry stresses, the theme of the *Wealth of Nations* was capitalist growth and development and the means of achieving such growth and development.<sup>18</sup>

This appropriate definition of productive labour was not used consistently by Smith as Marx went on to argue (*TSV*, 1, 155-6, 160 ff). The second conception to which Smith resorted involved labour that produced *value* embodied in a *commodity*. In this approach John Henry finds two separate conceptions of productive labour.<sup>19</sup> One of these relates purely to the production process out of which *value* emerges irrespective of any surplus value content, while the other relates to the view that production of non-material services could not be considered productive. Marx's interpretation did not bring out this subtlety explicitly, but both aspects were present in his critique of Smith.

For Marx, the origin of Adam Smith's confusing use of the productive-labour concept in relation to both the production of surplus value and value was to be found in the Physiocratic notion that non-agricultural industries were "sterile" in the sense that they produced commodities with value but generated no surplus value. Smith was aware that all industries should be viewed as generating the surplus, but in Marx's view he still allowed himself to revert to the fallacious alternative in his conception of productive labour (*TSV*, 1, 162-3).

The latter of the two variations of the commodity-based conception of productive labour was related in Marx's argument to Smith's definition of the *commodity*. Marx quoted the following piece from the *Wealth of Nations* in order to illustrate the point: "the labour of the manufacturer fixes and realises itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past ... [while the] labour of the material servant, on the contrary, does not

[so] *fix or realise itself ...*" (TSV, 1, 161).<sup>20</sup> The particular view of a commodity espoused here was inappropriate in Marx's interpretation. A product became a commodity not on the basis of its *material* existence but rather because, in the capitalist context, it was produced as a vehicle of surplus value to be realised in exchange. As Marx put it:

The materialisation, etc., of labour is however not to be taken in such a Scottish sense as Adam Smith conceives it. When we speak of the commodity as a materialisation of labour - in the sense of its exchange value - this itself is only an imaginary, that is to say, a purely social mode of existence of the commodity which has nothing to do with its corporeal reality; it is conceived as a definite quantity of social labour or of money. (TSV, 1, 171.)

Thus Smith went on to list as unproductive those forms of labour which produced services only. In this he gave no recognition to the "vendible commodity" as possibly a service produced as a consequence of capital advanced by a capitalist with the objective of accruing surplus value. Some services were paid for out of *revenue* and, as with some commodities, were destined for unproductive consumption (TSV, 1, 166). But this need not be the case and both may be involved in the production process and its results. On this Marx concluded that:

If therefore on the one hand a part of the so-called unproductive labour embodies itself in material use-values which might just as well be commodities (vendible commodities), so on the other hand a part of the services in the strict sense which assume no objective form - which do not receive an existence as things separate from those performing the services, and do not enter into a commodity as a component part of its value - may be bought with capital (by the *immediate* purchaser of the labour), may replace their own wages and yield a profit for him. In short, the production of these services can be in part subsumed under capital, just as a part of the labour which embodies itself in useful things is bought directly by revenue and is not subsumed under capitalist production. (TSV, 1, 166-7.)

### 6.3.3 VALUE, PRICE AND DISTRIBUTION.

While Marx found in the *Wealth of Nations* an implied principle of surplus value generation, Adam Smith's explicit analysis involved only the phenomenal forms of surplus value. Smith's analysis was thus once removed

from explaining the *essential* nature of the capitalist economy as Marx saw it. In attempting to explain exchange value by the addition of "natural" rates of return to the factors of production, Smith had produced a value-price-distribution analysis which Marx subjected to careful critical scrutiny and which he found to have crucial weaknesses. These weaknesses were illustrative of the deceptive appearances of capitalist operations.

Smith had not involved *capital* sufficiently in his explanation of value creation. As means of production, it was left with rather an external role to play in the *value* aspects of production, including the generation of the surplus. By contrast, Marx reasoned that capital was integrally involved in production in its value form. It was variable capital, advanced to employ labour, which actually facilitated the generation of surplus value. Smith's omission here was probably due to his *empirical* approach to the issue of value and distribution. For him, profit did not have to be *explained*; it was an empirical fact which simply had to be fitted into the analysis of value determination.

The sort of fallacy which Smith's argument involved was illustrated in a passage of the *Wealth of Nations* in which he was concerned to establish that profit was not based upon payment for the "labour of inspection and direction."<sup>21</sup> Marx found in Smith's arithmetic an analytical weakness rooted in the acceptance of the empirical and the consequent identification of surplus value with profit. The example given by Smith included two factories. The production details for each are set out in Table 6.1 (in Marx's terms). The reasoning implied by this example was that by increasing raw material (constant capital) inputs tenfold the profit return was raised from 100 to 730. How this increase was to be explained Smith did not say. He applied the *given* rate of profit to all capital employed to illustrate his point that profit had increased manyfold without any addition to the labour of superintendence. He did

	Factory 1	Factory 2
Rate of profit:	10 percent	10 percent
Variable capital:	300	300
Constant capital:	700	7000
Total capital:	1000	7300
Total profit:	100	730

Table 6.1

not notice that this additional profit was "generated" without any additional labour of any kind. Twenty men were employed in both cases even though a much greater throughput of production was involved in Factory 2. It was Marx's view that this result could not be explained by Smith's approach. Moreover, the method employed by Smith became orthodox in subsequent political economy.

The seven times greater profit in the one manufactory as compared with the other - or in general the law of profit, that it is in proportion to the magnitude of the capital advanced - thus *prima facie* contradicts the law of surplus value or of profit (since Adam Smith treats the two as identical) that it consists purely of the unpaid surplus labour of the workmen. Adam Smith puts this down with quite naive thoughtlessness, without the faintest suspicion of the contradiction it presents. All his disciples - since none of them considers surplus value in general, as distinct from its determinate forms - followed him faithfully in this. With Ricardo ... it merely comes out even more strikingly. (TSV, 1, 92.)

How Ricardo and others employed the contradictory principle used by Smith is the part of Marx's critical history considered in the next three Chapters of our study.

In discussing prices, Adam Smith revealed an awareness that *market prices*, the *actual* prices at which commodities were sold from time to time, may differ from what he termed "natural prices". These latter were calculated by the addition of the "natural" returns due to the factors of

production employed to produce the commodities concerned. What this amounted to was Smith's notion of commodity *value* expressed in money terms (*TSV*, 1, 95). Now this approach to "natural price" determination, Marx argued, continued in the methodological stance noted immediately above. He noted that for Smith:

... the value of the *commodity* is identical with its *cost price* and the latter with the *natural price* of the commodity. The rate of profit, as of wages, is *presupposed*. They are indeed given for the *formation* of the cost price. They are *antecedent* to the cost price. To the individual capitalist therefore they also appear as given. The hows, whys and wherefores do not concern him. Adam Smith here adopts the standpoint of the individual capitalist. ... And since Smith transports himself right into the midst of competition, he immediately reasons and argues with the peculiar logic of the capitalist caught up in this sphere. (*TSV*, 11, 218-9.)

Thus Smith's analysis was concerned only with the apparent, phenomenal world of competition in his dealings with price formation. This allowed him only to formulate two price categories, "natural" and market price, with the latter fluctuating around the former.

For Marx, the issue was more complex. He retained the idea of an "average price" about which market price fluctuated. It was the link between this "average price" and *value* which he analysed more fully. His argument was that "average price" could not be derived directly from value merely by expressing it in money terms. These categories did have to be analytically articulated, but they were different. Initially, Marx posited this difference as a *quantitative* one: "... as I shall show later, even the average price of commodities is *always different* from their value" (*TSV*, 1, 95). Part of the more sophisticated argument later would reveal a *qualitative* distinction as well, but in the context of his critique of Smith, Marx did not give any definition of "average price" or explain its determination. He was concerned especially to emphasise only that exchange *value* was the base from which prices should be argued:

... neither the market price nor still less the fluctuations in the average price of commodities can be comprehended except on the basis of an understanding of the nature of value. (*TSV*, 1, 95.)

It was clear to Marx that Adam Smith had recognised a link between value and distribution. In some of his discussion, Smith had argued value to be analytically prior to distribution. The embodied labour value of the commodity was what gave quantitative content to the distribution process. In this aspect of Smith's discussion, Marx had been able to identify the principle of surplus value. But Smith went beyond this and reversed the link between value and distribution. For the major part of Smith's analysis, it was distribution which was prior to value, and this left him with a most unsatisfactory circular argument which he could not resolve. The formulation of value or "natural price" by adding up the observed distributional quantities which were generated in production left the distribution itself unexplained.

Having *compounded* the value of the commodity from the separate and independently determined *values of wages, profit and rent*, Adam Smith now asks himself how these primary values are determined. And here he starts out from the phenomena as they appear in competition. (*TSV*, 11, 218.)

Chapters VIII, IX and XI of Book I of the *Wealth of Nations* were devoted to explaining the determination of the "natural" rates of wages, profit and rent. Marx found Smith's approach less than adequate in general and in its details.

In his critique of these chapters of the *Wealth of Nations*, Marx found little analysis of any substance (*TSV*, 11, 222 ff). Smith's reasoning on the "natural" wage was circular in that the subsistence commodity wage had to be valued using values which were in part compounded from the "natural" wage itself. Marx concluded that indeed "... the chapter [on wages] contains nothing relevant to the question except the definition of the *minimum wage*, alias the value of labour power" (*TSV*, 11, 223). Smith's discussion of the "natural" rate of profits also failed to get to the point. His analysis centred upon fluctuations in the rate of interest, and whatever these inferred about the rate of profits, based upon a supply and demand mechanism. In no way did this analysis contribute

to an *explanation* of the "natural" rate of profits:

... he does not tell us at all what it is or how it is determined although we are supposed to determine the "natural price" of the commodity by means of this "natural rate of profit". (*TSV*, 11, 229.)

Marx's critique of Adam Smith's rent theory was more substantial. While Marx agreed with the idea posited by Smith that rent was a monopoly revenue paid out of value due to the existence of landed property (*TSV*, 11, 343), he found Smith's treatment of the relationship between value and rent contradictory.

Smith's "adding-up" explanation of value seemed to include all revenue components as if they had equal analytical status. In Book 1, Chapter XI of the *Wealth of Nations*, this equality of status was rejected. Rent was no longer argued to be a component of "natural price" and Smith introduced a revised price concept as the market "centre of gravity". "Ordinary price" was defined in the following passage from the *Wealth of Nations*:

Such parts *only* of the produce of land can commonly be brought to market, of which the *ordinary price* is sufficient to replace the stock which must be employed in bringing them thither, together with its ordinary profits. (Quoted by Marx, *TSV*, 11, 350.)<sup>22</sup>

Normally, though, Smith continued, the "ordinary price" would be sufficient to pay rent due to the state of positive excess demand and Marx quoted a further passage to this effect:

There are some parts of the produce of land for which the demand must always be such as to afford a greater price than what is sufficient to bring them to market .... (*TSV*, 11, 351.)<sup>23</sup>

Marx read this passage from a French translation of Smith's book and extracted the concept "*prix suffisant*" from the phrasing used. He argued then that the "sufficient price" was that required to ensure production of a commodity. It was the "ordinary price" with no excess demand and no rent component. As such it included capital advanced plus profit at the general rate. The analogy with Marx's own concept of the *price of production* was striking.

Marx concluded that Smith had shifted ground in defining a "centre-of-gravity" price. Prior to Book 1, Chapter XI he had clearly argued that "natural price" would be just adequate to bring forth production of a commodity. This "natural price" would comprise wages, profit *and rent* at their "natural" rates (*TSV*, 11, 348-9). Then he turned to the argument that rent was not required for production at all.

Thus rent, from being a component part of the *natural price*, suddenly turns into a *surplus* over the sufficient price, a surplus whose existence or non-existence depends on the state of demand. But the *sufficient price* is that price which is required for the commodity to appear on the market, and therefore to be produced, thus it is the *price of production* of the commodity .... That [is the condition] *sine qua non* of the existence of the commodity. (*TSV*, 11, 351.)

What Smith had done was to alter the status of rent in its relationship to value and price. He stated quite explicitly that rent entered price differently from wages and profits. In essence, price would be high or low depending upon the "natural" rates of wages and profits while rent was an *effect* of *market* prices being high or low in response to the degree of excess demand for the commodity. (*TSV*, 11, 352).

While Marx approved of this shift in Smith's argument, he could only conclude that Smith had contradicted himself.

Although he does not turn back, even for one moment, to glance at Chapters V, VI and VII, he admits to himself (not as a contradiction, but as a new discovery which he has suddenly hit upon), that with the sufficient price, he has overthrown his whole doctrine of natural price. (*TSV*, 11, 352.)

For Marx, though, the real significance of Adam Smith's concept of the sufficient price was that it was taken up and developed by Ricardo.

Thus the *sufficient price* is in fact the *price of production* or *cost price* as abstracted by Ricardo from Adam Smith and as it indeed presents itself from the standpoint of capitalist production, in other words the price which, apart from the outlay of the capitalist, pays the ordinary profit; [it is] the average price brought about by the competition of capitalists in the different employments of capital. (*TSV*, 11, 351.)

But he assessed Ricardo's presentation as more consistent (*TSV*, 11, 352) and in the next Chapter of our study we shall explore Marx's reasons for



this in detail, along with the weaknesses that remained in Ricardo's analysis of the value-price-distribution issue.

Marx found in what he termed Smith's principle of the sufficient price a more or less correct statement of the role capital played in the determination of price. The analysis was confined to appearances, but the correct notion of capital advanced for production being returned with a profit through price formation was present. Smith did not pursue this line of reasoning consistently, though, and in places he experienced difficulty in explaining just how capital could be fitted into price. The issue for him was to reconcile price as a sum of revenues with the existence of capital as an input whose value had to appear in the price as well. Smith's dilemma in this was summarised by Marx in the following passage.

One can see ... why Adam Smith - despite his considerable scruples on this point - resolves the entire value of the commodity into rent, profit and wages and omits constant capital, although of course he admits its existence for each "individual" capitalist. For otherwise he would have to say: The value of a commodity consists of wages, profit, rent and that part of the value of the commodity which does not consist of wages, profit, rent. It would therefore be necessary to determine value independently of wages, profit and rent. (*TSV*, 11, 219.)<sup>24</sup>

A ruse used by Smith to overcome the difficulty was to resolve non-wage capital into its revenue components. These were traced back through a sequence of capital inputs setting up what was, in effect, a series of dated revenues to add to the immediate revenues in price formation (*TSV*, 1, 98). As Marx saw it, "it is of no avail for Adam Smith to send us from pillar to post" (*TSV*, 1, 99) in this way.

To demonstrate that Smith was unable to escape the dilemma, Marx quoted two passages from Book 11, Chapter 11 of the *Wealth of Nations*. First, Smith reiterated his view that commodity value was resolvable into three revenue components:

*The whole price or exchangeable value* of that annual produce [in aggregate], must resolve itself into the same three parts, and be

parcelled out among the different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land. (*TSV*, 1, 100.)<sup>25</sup>

Then, immediately following this point, Smith proceeded to argue for the exclusion of capital replacement from gross revenue to give a *net revenue*.

Marx built some of his critique around the following passage.

The gross revenue of all the inhabitants of a great country, comprehends the whole annual produce of their land and labour; the neat revenue, what remains free to them after deducting the expence of maintaining; first, their fixed; and, secondly, their circulating capital; or what, without encroaching upon their capital, they can place in their stock reserved for immediate consumption, or spend upon their subsistence, conveniences, and amusements. Their real wealth too is in proportion, not to their gross, but to their neat revenue. (*TSV*, 1, 101)<sup>26</sup>

In this analysis, then, Smith could not sustain the idea that value was compounded only from revenues. From arguing that distribution was effectively prior to price formation he had to revert to his earlier position that revenue could only be paid out of price, recognising now that capital had to be replaced as well.

Another aspect of Smith's analysis also revealed his confusion over the value-price-distribution issue, Marx argued. The object of Smith's analysis was the competitive capitalist economy. Competition ensured that, allowing for some specific differentials, the "natural" rates of return to all three factors of production were effectively the same in all sectors of production. He was aware that this distribution pattern was sustained by factor mobility and flexible *market* prices which signalled non-"natural" return rates in a particular sector of production. Marx argued that this view of the competitive process distorted the realities of capitalist production and distribution. Smith's formulation of the process of factor competition was too general because it was locked into the analysis of appearances.

As Marx saw it, the driving, primary force behind production was *capital* and the interests of capitalists. Capital mobility was important and competition established a uniform general rate of profits. Labour was

paid its value as labour power. It had no incentive to be mobile. Marx was not concerned to fit land into any *fundamental* analysis of the capitalist economy. Its *essential* nature could be grasped without reference to land. Marx summarised the issue in this way:

This represents an essential difference between Smith's and Ricardo's conceptions of the levelling out to the *natural price*. Smith's [conception] is based on his false assumption, that the three elements independently determine the value of the commodity, while Ricardo's is based on the correct assumption that it is the *average rate of profit* (at a given level of wages), which alone determines cost prices. (*TSV*, II, 222.)

Ricardo's handling of this issue will be taken up in detail in our next Chapter. The point to be made here is that Marx himself did not state the problem very clearly. Two facets of competition were involved and these were not argued separately by Marx. The competitive process with which Adam Smith was concerned was the levelling out of *market* prices to the "natural" prices. His determination of the "natural" price was erroneous, but the competitive analysis was legitimate. Marx also recognised this aspect of competition, but in his case, the levelling out was to a different "centre-of-gravity" price, the price of production. The price of production, referred to in the above passage as "cost price", as a base for the levelling of market prices implied capital mobility only, however. What Marx did not clarify was that even in the absence of any excess demand, positive or negative, such that market prices were equal to prices of production, there was still a competitive process involved. This was required to ensure that in the situation of varying capital composition in different sectors of production, a uniform rate of profits would be generated. Smith had not analysed this aspect of competition at all, but it was to be more significant for Ricardo's analysis and Marx's critique of it.

It was evident to Marx, then, that Adam Smith's work on the value-price-distribution issue had two dimensions. In one dimension, it contained some analyses which Marx found to accord with his own thought.

Smith had briefly argued the idea that value was essentially prior to distribution and had implicitly formulated the principle of surplus value. Embodied labour values were the basis of distribution between wage and non-wage incomes in this analysis. Smith did not develop the potential of this dimension of his work.

The other dimension of Smith's work was one of contradictions. He stood the value to distribution reasoning on its head and the result was a "natural" price compounded from revenues and measured by labour commanded. This argument was distorted by his idea that rent should be treated differently from wages and profits in price formation. He was uncertain about the inclusion of capital in price formation and his analysis of competition and price remained at a superficial level.

David Ricardo was also a critic of Adam Smith. Marx found Ricardo's critical remarks on Smith's work to involve a significant advance in the evolution of political economy. Marx's critique of Ricardo's analyses of value and distribution and its contribution to the development of his own political economy form the central themes of the next two Chapters of our study.

## NOTES

1. "The Law of Value in Ricardo and Marx", *Economy and Society*, 1:3, August 1972, pp.290-1.
2. Salo Ryazanskaya has argued this point in relation to the original Kautsky edition of *Theories of Surplus Value* in which a crude, strictly chronological re-ordering of Marx's critique was adhered to. See *TSV*, 1, 20 ff.
3. The work of these writers on interest and profits has been analysed by G.S.L. Tucker in his *Progress and Profits in British Economic Thought 1650-1850*, (Cambridge University Press, London, 1960), Chapters II and III.
4. *TSV*, 1, 354 ff. Marx's interpretation of Petty's work was apparently based largely upon *A Treatise of Taxes, and Contributions*, 1662.
5. *TSV*, 1, 364 ff. Marx cited passages from Locke's *Two Treatises of Government*, 1690, and *Some Considerations of the Consequences of Lowering Interest, and Raising the Value of Money*, 1691, and from North's *Discourses upon Trade; principally directed to the Cases of the Interest, Coynage, Clipping, Increase of Money*, 1691.
6. Cf. Pilling, "The Law of Value in Ricardo and Marx", p.293.
7. *TSV*, 1, 373 ff. Marx cited as sources Massie's 1750 anonymous work *An Essay on the Governing Causes of the Natural Rate of Interest* and Hume's 1752 essays "Of Interest" and "Of Commerce".
8. Marx's critique of these writers is to be found at *TSV*, 1, 44 ff, 308 ff and 378 ff.
9. Cf. Robert V. Eagly, *The Structure of Classical Economic Theory*, (Oxford University Press, New York, 1974) where it is argued that Classical political economy was founded on the key concept *Capital*.
10. See Marx's letter to Engels of 6. July 1863, *MEW*, 30, 361 ff and *MEC*, 174 ff. B.N. Ganguli has analysed Marx's use of the *Tableau* in some detail in his "Karl Marx on Quesnay", *Indian Economic Review*, VII (N.S.):2, October 1972.
11. The interpretation here expressed applied especially to Quesnay. Later Physiocrats and Turgot did rescue the analysis from this limitation to some extent at least. On this theme, see Ronald Meek's essay "The Physiocratic Concept of Profit" in his *The Economics of Physiocracy*, (Allen and Unwin, London, 1962), pp.297 ff.
12. Reprinted in Ronald Meek's *Turgot on Progress, Sociology and Economics*, translated, edited with an Introduction by Ronald L. Meek, (Cambridge University Press, London, 1973), pp.119 ff.
13. On this, see P.D. Groenewegen's papers "Turgot and Adam Smith", *Scottish Journal of Political Economy*, XVI:3, November 1969; "A Reappraisal of Turgot's Theory of Value, Exchange and Price Determination", *History of Political Economy*, 2:1, Spring 1970; and "A Re-interpretation of Turgot's Theory of Capital and Interest",

*Economic Journal*, 81:322, June 1971; and his book *The Economics of A.R.J. Turgot*, (Martinus Nijhoff, The Hague, 1977).

14. *The Economics of Physiocracy*, p.363.
15. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by Edwin Cannan, (Methuen, London, 1961), Volume 1, p.54, Marx's emphasis.
16. *Wealth of Nations*, *ed.cit.*, Volume 1, p.54, Marx's emphasis.
17. Adam Smith's concepts of productive and unproductive labour and their relationship to Marx's thought on exploitation are discussed in John Henry's paper "Productive Labour, Exploitation and Oppression - a Perspective", *Australian Economic Papers*, 14:24, June 1975. Henry's contribution helped clarify some of my ideas in the following discussion.
18. "Productive Labour, Exploitation and Oppression ...", p.33, p.37, p.38.
19. "Productive Labour, Exploitation and Oppression ...", p.36.
20. *Wealth of Nations*, *ed.cit.*, Volume 1, pp.351-2, Marx's emphasis.
21. *Wealth of Nations*, *ed.cit.*, Volume 1, pp.54-5. Quoted by Marx, *TSV*, 1, 91.
22. *Wealth of Nations*, *ed.cit.*, Volume 1, p.162, Marx's emphasis.
23. *Wealth of Nations*, *ed.cit.*, Volume 1, p.163.
24. There is a sense in which Adam Smith's view of the value aggregate was appropriate. For the purposes of national accounting, the aggregate product of an industry or the economy comprises *value added*, all of which is paid out as incomes in one form or another. The fact remains, though, that in *gross* terms the revenue from selling a commodity had to cover the cost of constant capital. It was this that Marx felt Adam Smith had not realised.
25. *Wealth of Nations*, *ed.cit.*, Volume 1, p.302, Marx's emphasis.
26. *Wealth of Nations*, *ed.cit.*, Volume 1, p.303. Marx noted in passing that George Ramsay had recognised the *concept* of constant capital and its significance in distinguishing gross from net revenue (*TSV*, 1, 104 ff). See below, Chapter 10, Section 10.2.2 for more on Marx's reading of Ramsay's work.

## CHAPTER 7

VALUE AND PRICE IN RICARDO'S *PRINCIPLES*

## 7.1 INTRODUCTION TO MARX'S CRITIQUE OF RICARDO.

In *On the Principles of Political Economy and Taxation* (third edition, 1821)<sup>1</sup>, Ricardo faced the particular analytical puzzle that when the embodied labour theory of value was applied in capitalist production, there emerged an inconsistency with the structure of distribution necessarily implied by such a mode of production. At the very least, the aggregate value of commodities produced in a particular period had to be "divided" between wages and profits. The problem was to provide a valid articulation between the labour theory of value and a system of distribution which required an income for labour and an income for the capitalist (and probably the landowner as well) while the only *source* of value was argued to be the labour itself.

It was Marx's view that Ricardo had not resolved this puzzle and his critique of the *Principles* documented this finding in great detail (*TSV*, 11, 161 ff). In the context of this critique, Marx was able to reiterate his own analysis of the value-price-distribution issue. Substantively, Marx argued that Ricardo began correctly with the embodied labour theory of value as the basis for an understanding of the capitalist economy. Ricardo was aware, though, that the theory did not apply *directly* to the capitalist economy, but he dismissed the discrepancy as being *quantitatively* insignificant. *In effect*, the theory was "near enough" in its explanation of exchange ratios and distribution.

For Marx, the labour theory of value held a profound significance. It was the key to the revelation that the capitalist social relations of

production were exploitative and its consistency with the form of capitalist distribution could not be argued as casually as Ricardo had done. Thus, the critique of Ricardo was centred around Marx's endeavours to provide a more formal articulation between immediate value and its modified form, the price of production, upon which market prices were based. This analysis, Marx argued, explained the distribution *phenomena* by linking them directly to production and revealed the essential nature of the worker-capitalist relationship.

It is significant for our study that we recognise the limitations in Marx's reading of Ricardo's work. Marx's critique focussed almost exclusively upon the *Principles*. The themes with which Marx was immediately concerned were to be found therein and he did not consider at any length the writings which led up to this *magnum opus*. Nor was he concerned with the differences between the editions of the *Principles*. He had access to the third edition and took it to provide a complete outline of Ricardo's theory of capitalism. Marx was aware of at least two of Ricardo's other works, referring to them in passing in *Theories of Surplus Value*. Neither *An Essay on the Influence of a Low Price of Corn on the Profits of Stock* of 1815, nor *On Protection to Agriculture*, fourth edition, 1822 was considered in any detail by Marx. His critique did not include any recognition of the analytical advances made by Ricardo between the *Essay* and the *Principles*, third edition. Recent research has revealed these to be both substantial and crucial to a complete understanding of Ricardo's final analyses.<sup>2</sup>

Especially is it also important to note that modern-day standards of Ricardo scholarship have been set through access to Ricardo's voluminous correspondence. This has proved to be a very rich source of analytical clarification. Marx did not have access to this source and his critique was constrained to some extent as a consequence. Moreover, Marx was not aware of two other writings of Ricardo which bore directly upon the themes with



which he was concerned. One was the "Notes on Malthus", written during 1820, in which Ricardo expressed his views about Malthus' analyses which contradicted his own in many ways. The source of these "Notes" was Malthus' *Principles of Political Economy*, 1820. The other piece which Marx could not consider was Ricardo's 1823 essay "Absolute Value and Exchangeable Value". Both of these writings would have provided Marx with additional insights into Ricardo's thought on political economy.

Our discussions in this chapter and the next are relevant to the unresolved controversy about the nature of the relationship between production and distribution in a capitalist economy. This controversy has centred upon the *bona fides* of Marx's endeavours to explicate the issue in terms of a socio-analytical articulation between value, price and distribution. The present argument has often involved contrasting the treatment of the issue in Ricardo's *Principles* with that which Marx gave it. Marx's own critique of Ricardo mediates in understanding the contrast.

Contributions to the debate<sup>3</sup> have roughly polarised around two sets of beliefs about the issue and Marx's treatment of it. The Marxists have found Marx's overall argument generally correct as far as it went, although some degree of *technical* modification to the original has been accepted as necessary by most writers. The so-called Neo-Ricardians have been less receptive to Marx's original contributions, especially at the technical level, even with the Marxist modifications, although they have shown some appreciation of the *social* conceptions which underpinned his work.

Specifically, the debate between these two groups of scholars has concerned first, the legitimacy of Marx's quantitative analysis of the value-price-distribution articulation issue, and secondly, the degree of *integrated* recognition which it is necessary to give to the social conditions with which the quantitative analysis was associated. Marxists have argued that the Neo-Ricardians have been too concerned with the technocratic issues of price formation and distribution in isolation from

the essentially social nature of the phenomena and their roots in production. This, they have added, misses much of the worthwhile contribution made by Marx to the understanding of the capitalist economy. In the view of the Neo-Ricardians, however, Marx's quantitative analysis was erroneous. While his social message may have illuminated much about the processes of capitalism, it was tied to invalid quantitative illustrations which led him to argue with undue definiteness about those processes. The Neo-Ricardian alternative is to get the *technical analysis* right first and, then, to consider the *social* facets of the issue more or less independently. Thus, Ian Steedman concludes that:

It has been shown that the proximate determinants of the rate of profit, the rate of accumulation, the prices of production, the social allocation of labour, etc. are the physical conditions of production, the real wage and the capitalist drive to accumulate. The next step then is to investigate the social, economic, political, technical, etc. determinants of those proximate determinants.<sup>4</sup>

For the Marxists, this approach is neither desirable nor reasonable. Marx's analysis must, they would argue, be read as an integrated, structural whole if its richness is to be appreciated. In the words of Anwar Shaikh:

... a crucial element of the Marxist approach to history ... [is] that the specific manner in which production is organised, and surplus-labour extracted from the direct producers, forms the 'hidden basis of the entire social structure'. For Marx, it follows from this that the concepts adequate to the analysis of any specific historical epoch, including that of capitalism, must necessarily be based on these aspects of its social practice. The struggle for production is the fundamental social practice in all human society; hence the analysis of production is the beginning point of Marxist analysis.<sup>5</sup>

From this it is clear that in the perception of the Marxists, the degree of integration of the social and the physical-technical dimensions of capitalism required in any meaningful analysis is high.

In our study of Marx's critique of Ricardo's *Principles*, we will be considering a major aspect of the *origin* of this debate which has not received sufficient detailed exegetical attention in the literature. We will find that Marx was a trenchant but sympathetic critic of Ricardo

even though the *Principles* was to Marx the apogee of the development of political economy. It will be our main thesis that the critique revealed substantial and fundamental differences between the two writers' interpretations and analysis of the value-price-distribution issue, although at times differences of emphasis were involved too. Moreover, there were both methodological and substantive considerations to be worked through in explicating the differences. It will become clear that it is not possible to "reduce" Marx to a Neo-Ricardian as purely *quantitative* manipulations may suggest. Anwar Shaikh makes the substance of this argument clear when he writes that:

Insofar as the problems to be dealt with center largely on the magnitude of Value, ... the real difference between Marx and Ricardo, the difference in their methods, tends to be hidden. Marx's superior ability to solve Ricardo's problems, is, as he himself insists, due to his ability to transcend 'the world of illusion' in whose grip Ricardo remains. This superior ability is therefore only a symptom of the real difference between Marx and the classicals. But to those who either explicitly or implicitly reduce Marx to Ricardo, this symptom becomes the real difference itself. Marx becomes a clever, if somewhat mystical, post-Ricardian.<sup>6</sup>

As our discussion in this Chapter and the next will show, the centrepiece of the difference alluded to by Shaikh was Marx's theory of surplus value.

The present Chapter is organised as follows. In Section 7.2 we make a critical assessment of the interpretations of the relationship between Marx and Ricardo that have appeared in the literature of the history of political economy. Section 7.3 then summarises the state of Marx's thought on the value-price-distribution issue as it existed immediately prior to the critique of Ricardo. We find that Marx went into the critique with the essential framework of his analysis well formed. The methodological aspects of Marx's reading of the *Principles* are considered in Section 7.4 and in Section 7.5 we move into our analysis of Marx's critique of Ricardo's treatment of value and price.

It is then in Chapter 8 that we take up how Marx used his critique of Ricardo's value and price analysis to reveal the shortcomings of the

latter's analysis of distribution. The crucial omission by Ricardo was an explicit recognition of the category surplus value as the *essential* foundation of a meaningful theory of capitalist distribution.

At this stage of our study, our attention is confined to the more or less static analysis of the value-price-distribution articulation problem. The dynamic implications of this issue for what Marx called the "laws of motion" of capitalism were of ultimate significance to him. His critique of Ricardo's treatment of capitalist "motion" and his own initial analyses of the subject will be considered in Chapters 11, 12 and 13 below.

## 7.2 MARX AND RICARDO IN THE HISTORY OF POLITICAL ECONOMY.

The Marx-Ricardo relationship has been examined in the literature of the history of political economy with one of three purposes in mind. First, to assert that there was an obvious intellectual filiation between the two writers; secondly, to show that no such lineage existed in order to avoid associating Ricardo with any disharmonious interpretation of capitalism; or thirdly, to establish that any evident link between the two writers was only apparent because of the unique nature of all dimensions of Marx's analyses. Some scholars have argued these positions in general terms while others have dealt more formally with the value-price-distribution issue as crucial to understanding the degree of filiation involved. In no case, however, has a textual exegetical interpretation of the order presented in our study been provided.

Joseph Schumpeter in 1942 expressed what is probably the general orthodox view of the Marx-Ricardo relationship in the following passage:

Marx had a master then? Yes. Real understanding of his economics begins with recognising that, as a theorist, he was a pupil of Ricardo. He was his pupil not only in the sense that his own argument evidently starts from Ricardo's propositions but also

in the much more significant sense that he had learned the art of theorising from Ricardo. He always used Ricardo's tools, and every theoretical problem presented itself to him in the form of difficulties which occurred to him in his profound study of Ricardo and of suggestions for further work which he gleaned from it.<sup>7</sup>

These ideas were reiterated in Schumpeter's later work when the nature of the link was clarified further. He wrote:

... Marx used the Ricardian apparatus: he adopted Ricardo's conceptual layout and his problems presented themselves to him in the forms that Ricardo had given to them. No doubt, he transformed these forms and he arrived in the end at widely different conclusions. But he always did so by way of starting from, and criticising, Ricardo - *criticism of Ricardo was his method in his purely theoretical work.*<sup>8</sup>

Amongst those who accept this general continuity between Ricardo and Marx are Ronald Meek and Maurice Dobb.<sup>9</sup>

G.S.L. Tucker<sup>10</sup> dissents strongly from this orthodox interpretation of the Ricardo-Marx link. Tucker does not accept that such a link should be taken for granted and attempts to establish that it has no substance. His interpretation is, however, based upon a series of misunderstandings and is supported by very little textual exegesis. He argues largely in terms of generalisations about Marx's analysis, referring only to *Capital*, Volume 1 for evidence.

The issues of contention for Tucker are the labour theory of value and the theory of profits posited by Ricardo and allegedly used by Marx in the formulation of his version of the operations of capitalism. As Tucker reads it, Marx's ideas emerged almost independently of anything that Ricardo wrote. Ricardo just cannot be held responsible for Marx's critique of capitalism. Ricardo's political economy stemmed from a different *raison d'etre* and was premised upon an harmonious view of the capitalist production and distribution processes.

Tucker argues that Marx's labour theory of value, as formulated in Volume 1 of *Capital*, was not akin to that posited by Ricardo. Ricardo's theory always included a return to capital based upon its contribution

to produced value.

From this point of view it could be suggested that Ricardo's "labour" theory of value has its nearest equivalent, not in Marx's labour theory as expounded in Vol. 1 of *Capital*, but in his "prices of production" theory to be found in Vol. III.<sup>11</sup>

The point that Tucker cannot accept comes out clearly in the following passage:

... did Ricardo claim, like Marx, that profits arise exclusively from the employment of living labour (Marx's variable capital), and not from such things as plant and equipment? This can confidently be regarded as a peculiarly Marxian piece of hocus-focus, contained in the first volume of *Capital*, and finding no counterpart in Ricardo's work.<sup>12</sup>

The degree of misunderstanding of Marx evident in these arguments is considerable. Tucker does not recognise that for Marx *profits* did not simply arise from the employment of variable capital. Profits are one phenomenal form of *surplus value* which *was* generated by the employment of living labour and *only* by the employment of living labour. Profit itself *appeared* as proportional to *all* capital employed by virtue of the competitive formation of prices of production. The redistribution of surplus value had nothing to do with the composition of capital which was only relevant to production and immediate value. In principle, even a capital which comprised no variable capital would return the general rate of profits in Marx's analysis. Tucker's use of this extreme example, then, does not help his case at all. Moreover, as we shall demonstrate, Marx's interpretation of Ricardo did reveal that the *Principles* contained a rudimentary, though implicit, principle of surplus value. His failure to develop this principle was in large part due to his *identification* of value and price of production. Tucker wants to go one step further and have the latter category stand alone. In Marx's analysis this just would not make sense and Ricardo's endeavours to have it do so failed.

Tucker goes on to grant that Marx could have been "assisted" in formulating his labour theory of value by reading Ricardo's *Principles*. But, he hastens to add, this does not mean that Ricardo had any direct

bearing on the idea that surplus value is generated by a process of exploitation. Tucker wants to argue the issue this way:

Could Marx have stated essentially the same ideas, with the same or even a greater show of plausibility, without the help of the labour theory? If we find that he could, then presumably the responsibility attaching to Ricardo will be even further diminished.<sup>13</sup>

Such an argument, though, is a *non sequitur*. Intellectual history cannot be written on the basis of what a writer could have done and only ideological purposes could be served by this endeavour. The fact remains that *Marx did* base his theory of surplus value very firmly upon the labour theory of value and we should interpret his link to Ricardo on that premise.

A further aspect of the differences between Ricardo and Marx argued by Tucker is their respective methods of analysis. Tucker finds that "Marx was at once more 'abstract' and more 'empirical' than Ricardo."<sup>14</sup> Marx, himself, made the point that Ricardo had not been sufficiently abstract in his method. Tucker's first contention is not in dispute, indeed it was a *quality* of Marx's work which enabled him to transcend the limitations of received political economy. That Marx was more 'empirical' Tucker argues in the sense that he transferred generalisations from observation into his analyses. Tucker cites his "immiserisation" thesis as indicative of this approach. Now it can legitimately be argued that Marx's analyses of the "laws of motion" of capitalism were often poorly developed. His work *was* incomplete. But Tucker goes on to argue that such historical generalisation was "a method of reasoning totally foreign to Ricardo himself".<sup>15</sup> This assertion is false. One of the elements of Marx's own critique of Ricardo's theory of differential rent was that he had made the unwarranted generalisation that extensions to the margin of cultivation in agriculture *necessarily* experienced diminishing returns.

Tucker concludes his article with the remark that: "Fresh discussions may lead to a reappraisal and more careful interpretation of

the relation between the two systems of thought".<sup>16</sup> In the light of Tucker's own arguments, this is greatly needed.

One of the earliest attempts systematically to examine the Marx-Ricardo relationship in terms of the value-price-distribution articulation problem was that of Ladislaus von Bortkiewicz in 1907.<sup>17</sup> Bortkiewicz took a critical stance towards Marx's analyses and explicitly defended Ricardo against Marx's critique.

Bortkiewicz was primarily concerned to reveal some analytical weaknesses in Marx's approach to the value-price-distribution issue, but his emphasis upon *quantitative* arguments meant that he did not give due recognition to Marx's special concern for the *social* dimensions of capitalist production. His interpretation of Marx's critique of Ricardo was similarly given a quantitative bias. In this context, Bortkiewicz reached the unwarranted conclusion that Ricardo had presented Marx's essential thesis on the issue in terms that were at least as competent as Marx's own. We shall argue that any such conclusion could only have been reached through a misreading of Marx's critique of Ricardo.

To begin with, it is doubtful if Bortkiewicz appreciated fully the significance of Marx's distinction between the value-surplus value level of analysis and the price of production-profit level. There was more involved in this than a quantitative dichotomy, but Bortkiewicz proceeded as if the two analyses were qualitatively the same. In one footnote, he did reveal an awareness of Marx's purpose in formulating the value analysis, viz. to expose the origin of profit which was obscured by the apparent nature of capitalist exchange and employment of labour. But this insight was not as significant as Marx thought, Bortkiewicz asserted, and he did not carry this awareness into his interpretation of Marx's critique.<sup>18</sup> Bortkiewicz thus failed to present his argument such that value-surplus value appeared as immediate manifestations of the social relations of production while price of production-profit appeared as a



consequence of post-production realisation and the process of competition.

Such an omission followed in the tradition of Ricardo's analyses and was one of the central themes of Marx's critique. It led Bortkiewicz to overstate the outcome of Ricardo's analysis of the value-price-distribution issue and to de-emphasise the changes made by Marx. Bortkiewicz wrote:

We cannot ... agree with Marx when he objects against Ricardo - as he does on innumerable occasions - that the latter had confused prices with values. Admittedly, Ricardo does not use the terms "value" and "price" in the Marxian sense of a contrast between value-calculation and price-calculation. However, in discussing the exchange-relationships of goods, or prices, Ricardo displays complete knowledge of the conditions on which this contrast rests. Not only was he well aware that the intervention of the general rate of profit in these exchange-relationships brings about a modification of the (original) law of value, and thus, in Marxist terms, divergences of prices from values, but he correctly judged the direction and the extent of these divergences.<sup>19</sup>

Several things about this passage are important. First, Bortkiewicz was quite correct in recognising the difference between Ricardo's and Marx's use of categories, but the point was not developed and its effect was not evident in the rest of the passage. For secondly, the passage reflected the quantitative orientation of Bortkiewicz's view of the issue. Thirdly, Bortkiewicz asserted a much stronger outcome from Ricardo's analysis than was appropriate. As our study will show, Marx found Ricardo to have a less than "complete knowledge" of any facet of the issue. Ricardo was aware that the existence of a general rate of profits modified the labour-value principle quantitatively, but he did not treat it as a phenomenon which required formal analysis. Indeed, he dismissed it as being simply of no significance quantitatively and therefore generally.<sup>20</sup> Bortkiewicz did not mention this important argument.

In Ricardo's "judgement" of the issue, though, two distinct analytical problems could have been separated. These were first, and logically prior, the formalisation of the value-price of production articulation required by the presence of a uniform general rate of profits; and secondly, and the aspect of the issue with which Ricardo was mostly concerned, the effect of

a *change* in the general rate of profits on price formation. Bortkiewicz excused Ricardo for his lack of clarity on this point as follows:

As regards Marx's polemics on this matter, it might at most be conceded that Ricardo should have kept more sharply separate the two questions of, firstly, the incongruity between value and price, and secondly, the influences on prices of changes in the rate of profit. But even this objection would, strictly speaking, be beside the point, since the first question presents itself, as it were, as a special case of the second one.<sup>21</sup>

For Marx, more than this was involved. His critique of Ricardo emphasised the logical independence of the first question and its contribution to the understanding of capitalism. To consider it to be merely a special case of the second question just will not do.

Bortkiewicz went on further to add to this defence of Ricardo. Marx found that Ricardo's analysis of the value-price-distribution issue required the *presumption* of a general rate of profits with a consequent lack of attention being paid to its *generation*. In the following defence, Bortkiewicz actually emphasised one of Marx's objections to Ricardo's understanding of the issue:

Now it is true that if one believes, with Ricardo, that prices depend on the rate of profit, then the problem of price-formation cannot be considered to have been solved as long as one has not brought to light the factors determining the level of the rate of profit. Ricardo's discussions ... do not, however, pretend in the least to give a complete solution of the price problem; their sole purpose, on the contrary, is to show how changes in the rate of profit affect prices. For this reason, Ricardo is fully entitled, in his numerical examples, not only to assume that profits have been equalised, but also to adopt an arbitrary numerical value for the rate of profit.<sup>22</sup>

Ricardo may have been "entitled" to his view of the analysis which suited his purposes, but this did not make him immune to criticism based upon the *limitations* of this view. And, what is more, Marx revealed that these limitations existed even in the light of Ricardo's purpose. It was not a matter of Ricardo's argument being simply incomplete. Rather was it the case that his argument *logically* could not be sustained in the form presented for it by-passed mediating steps in the analysis which were direct reflections of the nature of capitalism itself.

Strangely, Bortkiewicz sensed this, and, towards the end of the paper, he lamented that Ricardo had not paid more attention to the origin of profit as an integral part of his analysis. He correctly ascribed to Ricardo the *idea* that profit arose from a "*division*" of produced value between the worker and the capitalist, an interpretation which Marx would have endorsed. But it remained an idea only, and Bortkiewicz tempered it ideologically by arguing that it involved a "withholding" principle rather than an exploitation principle.<sup>23</sup> His conclusion revealed an understanding of Marx's thought not always evident in his paper.

For, in trying to make clear the origin of profit, Marx had the lucky inspiration [*sic!*] to construct a model in which profit exists, without any norm other than the (original) law of value being decisive for the relationship in which products are exchanged for each other. Such a model made it obvious that profit could neither have its first cause in the mark-ups which were a phenomenon of an exchange-economy, nor needed to be regarded as a counterpart of the "productive services of capital". In other words, by making value-calculation precede price-calculation, Marx succeeded - much more sharply and emphatically than Ricardo had done - in delimiting the theory of withholding against other theories of profit and in shaking off any common feature.<sup>24</sup>

In spite of this, though, Bortkiewicz was convinced that Marx's use of the value-surplus value level of analysis was unnecessary and inappropriate. The phenomena of capitalism were able to be *expressed in mathematical form* without such analysis and, besides this, Marx had not performed the value-price-distribution calculations correctly.<sup>25</sup> These points serve to emphasise the technocratic nature of Bortkiewicz's interpretation of Marx and his lack of concern for prior and penetrating *essential explanation* as distinct from the *formal expression* of capitalist phenomena.

In her elaboration upon Maurice Dobb's thesis<sup>26</sup> that value and distribution theory followed two distinct historical lines of development, Krishna Bharadwaj gathers the Quesnay-Smith-Ricardo-Marx lineage under the rubric "Classical".<sup>27</sup> As part of this work, she provides an interpretation of what core analytical components these writers used in common. This particular point is of relevance to our study, especially as it concerns the Ricardo-Marx link.

Robert Eagly suggests that it is the central role of capital which provides the "Classical" core: "the analytical structure of classical theory is grounded fundamentally in a single major concept: *capital*. The centrality of capital within classical economics cannot be overemphasised".<sup>28</sup> That there was more than this in the core is revealed by Bharadwaj, and in this she is joined by Pierangelo Garegnani. What these two emphasise is that the "Classical" analysis of value and distribution centred upon the concepts of a given commodity wage and a social surplus generated in production. In Bharadwaj's words:

The central notion for classical distribution theory is that of surplus, the size of which is determined by the methods of production and distribution. Under competitive capitalist relations, the surplus accruing as non-wage revenue is determined, given the social output, methods of production and the wage. For an analysis of the problems of distribution and accumulation, a proper formulation of value relations becomes a prerequisite.<sup>29</sup>

Our reading of the Ricardo-Marx relationship which is documented below, and our earlier discussion of Marx's critique of Adam Smith (above, Chapter 6, Section 6.3), supports these views of the "Classical" core of analysis. It was the case, though, we argue, that Marx stood out as having developed the implications of this core in an integrated, *socio-analytical* interpretation of capitalism.

Several recent writers have explicated and defended the unique dimensions of Marx's contributions to the critical analysis of capitalism, with particular reference to the Ricardo-Marx filiation. These writers include Geoffrey Pilling, Susan de Brunhoff, and Susan Himmelweit and Simon Mohun. The essential basis of their defence is expressed by Alfredo Medio as follows:

... as Maurice Dobb ... has recently reminded us, the relation between Marx and the classical economist is a dialectical one. I should like to go further than Mr. Dobb would probably do, saying that most of the Marxian theory of *value* ought to be understood as a *critique* rather than a development of Ricardo's theory.<sup>30</sup>

Geoffrey Pilling<sup>31</sup> argues that "while Ricardo grasped the nature of the problem facing political economy his *method* prevented him from arriving

at a satisfactory solution to it".<sup>32</sup> The particular problem referred to here is that of integrating the embodied labour theory of value into the analysis of the dynamics of distribution. Ricardo was locked into the methodological implications of British empiricist philosophy.

All Ricardo's weaknesses reflect this empiricism and resolve themselves into this: that while he starts correctly from the law of value he attempts *immediately* to deal with all the phenomena which conflict with this law ... What is lacking in the *Principles* is any treatment of the process of *mediation* by which the 'forms of appearance' in bourgeois society are connected to the source of their origin, the law of value.<sup>33</sup>

Pilling cites several points of error in Ricardo's work which Marx had argued to be a consequence of this methodological shortcoming. First, Ricardo confused the categories value and price of production and failed to specify their roles in the analysis of distribution and market-price formation. Secondly, Ricardo's endeavour to persist with the fundamental labour theory of value as the *immediate* basis for distribution led him to formulate his false theory of differential rent. Thirdly, Ricardo did not explicitly separate surplus value from its phenomenal form as profit, and this reflected his inadequate appreciation of the nature of capital. Fourthly, Ricardo failed adequately to comprehend the nature of the commodity, a fundamental capitalist category. Especially did he not realise the implications of the use-value-exchange-value distinction and of their unity in the commodity, "which for Marx was to provide the key for his entire analysis".<sup>34</sup> Ricardo concentrated upon the *quantitative* analysis of value and failed to explicate its *qualitative* significance in the capitalist economy as a reflection of the social relations of production.

Susan de Brunhoff<sup>35</sup> argues, in more resolute terms than Pilling, that Marx was an "a-Ricardian" on the basis of "the irreducible difference between Ricardo and Marx".<sup>36</sup> In describing Marx this way, she wishes to emphasise that he stood apart from Ricardo in a sense that no "non-Ricardian" could. This, in effect, argues a complete break by Marx from Ricardo's method and analysis, and, what is more, from political economy

itself. Marx at all times wrote a *critique* of political economy. Now just what Marx was doing in his writings about capitalism is, to some extent, a semantic issue. For de Brunhoff, a "Marxian political economy" would embody a contradiction of terms. Only bourgeois writers write "political economy", which is the "science" of capitalism.<sup>37</sup> It is in this sense that de Brunhoff writes: "Marx's reasoning does not then consist in superseding the 'bourgeois limits' of Ricardian ideas, but in *displacing the problems* of Ricardian economic theory".<sup>38</sup> It is our view, however, that both Ricardo and Marx were similarly concerned to comprehend how the capitalist economy worked. For Marx, this objective was *critically* based and he reached for it through a *critique* of Ricardo's understanding of the economy. The resulting interpretation presented by Marx was quite different from that of Ricardo. Whether we call Marx's interpretation political economy or not, our view remains the same.

The explicit and obvious origins of Marx's political economy in the work of Ricardo, especially with reference to the theory of value and surplus value, are argued strongly by John Eatwell.<sup>39</sup> In endeavouring to comprehend the value-price-distribution analysis of the capitalist economy, both Ricardo and Marx faced the same problem. As Eatwell sees it: "the difficulties in the development of his theory, which Ricardo attributed to the lack of a suitable standard of value, were inherited by Marx in the form of the problem of the link between 'values' and 'price of production'."<sup>40</sup> Thus, once capitalist distribution was allowed for, both Ricardo and Marx faced the same problem of establishing articulation between the value and price domains of analysis. For Ricardo, this required an invariable standard of value in order to sterilise the problem. For Marx, a process of transformation had to be developed. Neither was wholly successful in this endeavour.

It is our view, and one which will be documented fully in this Chapter and the next, that Marx's own interpretation of Ricardo's

*Principles* gives no credence to Eatwell's contentions. For Marx, the search for an invariable standard of value had little connection with the fundamental, static value-price-distribution articulation problem that he first and foremost wanted to solve.

In part, the difficulty with Eatwell's argument is as stated by de Brunhoff:

We are ... told by Eatwell that the need for a theory of value arises because surplus, social product and real wages consist in heterogeneous bundles of commodities: thus we see only a need for a standard of value, in order to *measure* the magnitudes of the social product. Like Ricardo, Sraffa, and most economists, Eatwell is chiefly concerned with the problem of *magnitudes*, and not with that of the *peculiar characteristics* of value and surplus value.<sup>41</sup>

To this must be added David Laibman's response<sup>42</sup> to Eatwell's paper where he argues that Marx actually solved the problem posed by Ricardo *before* proceeding to the "Transformation Problem". He did this "by subsuming the problem of measurement within the more basic problem of value *creation*, that is, by discovering that the social source and nature of value is to be found in labour time". He went on to conclude that "Marx's invariable standard of value, then, is ... the hour of abstract, socially-necessary labour time".<sup>43</sup> In Laibman's view, the *commodity* standard of value sought by Ricardo and found by Sraffa cannot provide a solution to the transformation attempted by Marx. For:

The real "role of a theory of value in the origin of surplus" is not to untangle valuation intricacies due to the heterogeneity of commodity aggregates, but rather to expose the nature of capitalist power, and its ability to explain why the worker-capitalist relation takes the form of an impersonal market relation.<sup>44</sup>

The key distinction missing from Ricardo's analysis was that between labour and labour power. It was the concept of labour power that Marx used to provide the essential basis for a theory of distribution that was consistent with the labour theory of value and reflected the *social* nature of capitalist relations of production.

Susan Himmelweit and Simon Mohun<sup>45</sup> also argue that Marx's value theory was not *primarily* oriented towards solving price problems. It was very

much a *social* theory which, while derived from the work of Ricardo, was given a new meaning and significance altogether.

It is Himmelweit's and Mohun's view that Ricardo's analysis made the distinct contribution to the evolution of value theory of exposing the contradiction between the embodied labour theory of value and the cost-summation interpretation of value which was based upon post-production forms of distribution. But this was the limit of his legacy.<sup>46</sup> For Marx, it was not merely a matter of *solving* this contradiction. The task was to embody it in an analysis which reflected accurately the socio-economic nature of capitalism. To this end, Marx probed more deeply than Ricardo had done into the production relations of capitalism in order to get beneath the appearances.<sup>47</sup> In so doing, he reformulated the essential category value as based upon *abstract* labour. This value was embodied in the commodity as exchange value. Thus, in capitalism:

... in addition to the aspect of labour which produces use-values, there is another aspect of labour which produces use-values as *commodities*, which is abstract labour. Marx's "value" is the product of abstract labour. Accordingly, value is a category of commodity production, whose *form* is exchange-value; what gives commodities exchange value is the labour that remains an abstraction from the labour that produces use-value.<sup>48</sup>

Marx's project was to proceed from this abstract vision of value to the theoretical analysis of the concrete phenomena of capitalism. One of the most immediate issues in this process was that of articulating value as exchange value to concrete prices. Competition dictated that the exchange of commodities could not take place at values in their immediate form as exchange values. Modification to exchange values was required in order to ensure the generation of a uniform rate of profits. This led Marx to the "transformation problem", which Ricardo had not *posed* as such but for which he *had* required a *solution*.<sup>49</sup>

The significant thing about all of the debate over the Ricardo-Marx link as far as our work is concerned is that it has not been based upon a thorough-going comprehension of Marx's own views on the subject. Marx



devoted a considerable amount of effort to establishing the precise nature of his criticism of Ricardo and yet this has been given only limited attention in the literature. No writer has yet presented an interpretation of Marx's critique which does justice to its power and complexity. In our study we attempt such an interpretation.

### 7.3 MARX'S INTRODUCTORY "DIGRESSION" ON THE VALUE-PRICE-DISTRIBUTION ISSUE.

In "Theories of surplus value", Marx's critique of Ricardo effectively began with a section that he entitled "Herr Rodbertus. New Theory of Rent. (Digression)". Rodbertus' work<sup>50</sup> with which Marx was concerned dated from 1851, so, in terms of any chronological evolution of political economy, to treat it prior to Ricardo's *Principles* was a digression. However, the placement of this section had an important critico-logical rationale and its substantive content represented a significant stage in the critico-historical evolution of Marx's own political economy. It provided a concise statement of Marx's position on the value-price-distribution issue in mid-1862, when the piece was drafted (*TSV*, 11, 15n 1), upon which the subsequent detailed critique of Ricardo's *Principles* was based.

Some explanation of the rationale for this "Digression" is in order first. Salo Ryazanskaya, in an editorial footnote (*TSV*, 11, 15n 1), explains it in two stages. First, there was a letter from Lassalle on 9 June 1862 in which Marx was requested to return the Rodbertus book, which he had on loan, by the beginning of October that year. This gave the *impetus* for the section. Secondly, and more significantly, Rodbertus was also a critic of Ricardo and had attempted to formulate a theory of *absolute* rent as a critical response to Ricardo's efforts with *differential* rent. Marx, too, had noted the omission by Ricardo of any treatment of absolute rent. This, he had planned to argue, was indicative of a major deficiency in Ricardo's

handling of the value-price-distribution issue. In effect, then, Rodbertus was an intellectual "competitor" who has pre-empted part of Marx's critique. It was appropriate that his contribution be subjected to careful critical scrutiny before Marx formalised his critique.

The resulting section went beyond the critique of Rodbertus. In it we find two particular developments which are most pertinent to our study. First, Marx stated more clearly and formally than previously the systematic analysis of the value-price of production transformation process. Gone were the limitations found in the 1857-58 *Grundrisse* analysis of this process.<sup>51</sup> His model now represented a virtually "complete" (*vis-a-vis Capital*, Volume III) exposition of the articulation between value and price of production. It was on this basis that he was able to provide such an incisive critique of Ricardo's value-price analysis.

Secondly, Marx provided a preliminary statement of the issues involved in his planned critique of Ricardo's theory of rent. Fundamentally, this involved the formulation of the principle of absolute rent as an extension of rent theory beyond the restrictive principle of differential rent which formed the basis of what Marx called the "Ricardian" law of rent.

In this present section, we will summarise the substantive position posited by Marx in this important "Digression". We shall be concerned less with the critique of Rodbertus *per se* than with Marx's *integrated* treatment of the two developments just outlined. It was this treatment which prepared the way for his detailed critique of Ricardo's *Principles*.

As a first step in developing his theory of absolute rent, Marx was concerned to differentiate two basic production sectors. One sector produced agricultural commodities used as wage goods and raw materials; the other sector produced manufactured commodities from these raw materials. Both sectors employed capital and labour in the production process; but agriculture was argued to be more labour intensive than manufacturing. This relativity manifested itself in the organic composition of capital, the

ratio of constant capital to variable capital advanced, which would be lower in agriculture (*TSV*, 11, 20).

In the development of his analysis at this stage, Marx did not make it very clear what he assumed or argued about the *rate of surplus value*. The determinants of this crucial category were not explored. At one point, the rate was *assumed given and constant through time* (*TSV*, 11, 21-2), and at another it was *assumed uniform across the sectors of production* (*TSV*, 11, 66). We conclude then, that Marx worked from the assumption of a uniform rate of surplus value across the sectors of production. Moreover, we note that he made no allowance for any change in this rate as the economy developed over time.

Marx continued his analysis with some consideration of the general rate of profits. Rodbertus' presentation of the formation of the profit rate (*TSV*, 11, 25 ff) was adapted directly from the work of Adam Smith and Ricardo. This involved embodied labour *value* as the "centre of gravity" about which actual market prices fluctuated under the impetus of supply and demand effects. These price fluctuations affected the realised rates of profit in the different sectors of production and generated shifts in the allocation of capitals which would tend to restore market price to a direct monetary expression of labour value. A series of short period oscillations of price around value was envisaged, but with average price equal to value.

Now Rodbertus recognised that the result of this averaging process had to be a uniform average rate of profit on all capitals. But, as Marx pointed out, this required that the produced value of a commodity embodied surplus value immediately in proportion to the size of capital employed. Such was not the case, even if a uniform rate of surplus value was assumed. The surplus value actually generated in a sector of production, over a particular period, depended upon three aspects of the capital input, given the rate of surplus value (*TSV*, 11, 28). First, its organic composition,

which varied across sectors for a complex of reasons; secondly, the period of capital circulation, or its rate of turnover, as determined by the ratio of fixed to circulating capital; and, thirdly, the length of the production period *vis-a-vis* the period during which living labour was employed.

Marx gave a simple three-sector arithmetical example in order to demonstrate how the rate of profit would vary between sectors if average prices were to be monetary expressions of value, and organic compositions of capitals differed as between the sectors. The immediate ratios of generated surplus value to capital advanced would vary and the rates of profit could be made uniform only by a redistribution of surplus value in proportion to capital advanced. As Marx put it:

Competition amongst the capitals thus seeks to treat every capital as a share of the aggregate capital and correspondingly to regulate its participation in surplus value and hence also in profit ... But in plain language this just means that the capitalists strive (and this striving is competition) to divide among themselves the quantity of unpaid labour - or the production of the quantity of labour - which they squeeze out of the working class, not according to the surplus labour produced directly by a *particular* capital, but corresponding *firstly* to the relative portion of the aggregate capital which a particular capital represents and *secondly* according to the amount of surplus labour produced by the aggregate capital (*TSV*, 11, 29).

This competitive equalisation was achieved by way of average price formation.

Marx proceeded to give a more formal and systematic exposition of this issue a little later in the "Digression" (*TSV*, 11, 66 ff). He used a five-sector model and devised the results shown in Table 7.1 (adapted from *TSV*, 11, 67-8). Each sector had a capital input of 1000, but there were wide variations in the organic compositions of these capitals. They ranged from  $\frac{2}{3}$  in sector III to 4 in sector I. The average organic composition of  $\frac{3}{2}$  coincided with that in sector II. Marx found the appropriate average rate of profit by aggregating the immediate ratios of surplus value to capitals advanced in the sectors and averaging them, and, alternatively, by aggregating the surplus values generated in each sector and expressing this aggregate as a ratio to the aggregate capital advanced. The result was a

Sector	Constant Capital		Variable Capital	Surplus Value	Rate of S.V. (%)	Profit ( $\pi$ )	Immed. Rate of $\pi$ (%)	Value (v)	Average Price (P)	(P-v)	Calculated Profit
	Mach.	Raw Mat.									
I	100	700	200	100	50	100	10	1100	1200	+100	200
II	500	100	400	200	50	200	20	1200	1200	0	200
III	50	350	600	300	50	300	30	1300	1200	-100	200
IV	700	nil	300	150	50	150	15	1150	1200	+50	200
V	nil	500	500	250	50	250	25	1250	1200	-50	200

TABLE 7.1

general rate of profits of 20 per cent.

Each sector's capital thus shared in the aggregate surplus value in proportion to its size. This meant that some average prices were above values - in sectors I and IV where the organic compositions of capital were greater than the average, - some average prices were below values - in sectors III and V where the organic compositions of capital were less than the average, - and one average price was equal to value - in sector II where the organic composition of capital was equal to the average. These results depended respectively upon the realised sector profits being greater than, less than and equal to the immediately generated sector surplus values.

An important rationale for Marx's clarification of the value-price transformation was that it related directly to what Rodbertus had argued about rent. In particular, he had attempted to explain *absolute rent* by positing a larger rate of profit in agricultural production. The origin of this larger rate was that raw material inputs were not paid for in agriculture. As Marx saw it, this amounted to the farmer capitalist giving away as rent a *part* of his profit due to an underestimation of the cost of his inputs (*TSV*, 11, 45 ff). But without this miscalculation being assumed, Rodbertus could not explain rent at all (*TSV*, 11, 92).<sup>52</sup>

As a fundamental principle, though, Rodbertus' idea was correct. For Marx, too, the explanation of absolute rent was to be found in a sustainable *immediate* rate of profit in agriculture that was above the general rate. This required that the equalisation process which was involved in the value-price of production transformation be impeded. Thus, the appropriation of absolute rent by landowners required that the agricultural sector yield a surplus value greater than its proportional share of the aggregate profit at the general rate, *and* that there existed some means by which this "excess" of surplus value was prevented from being redistributed through competitive average price setting. The average price for an agricultural commodity would then be its *value*, and this value would

be greater than the *calculated* price of production. The result would be that the farmer could enjoy a rate of return on his capital equal to the general rate of profits (lowered a little by the failure to redistribute the whole of the aggregate surplus value) *and* pay rent to the landowner (TSV, 11, 37).

This result was *possible* in agriculture, Marx argued, because of the empirical observation that production in that sector was labour intensive and thus involved capital with a low organic composition ratio. The situation would be akin to sector III in Marx's example above. It then remained for Marx to explain what prevented the redistribution of surplus value according to the rules of competition (see TSV, 11, 30, 37, 70, 93-4).

This explanation was found in the existence of private property in land, giving an *economic* significance to this socio-political institution. In this, an important contrast with Ricardo's differential rent theory emerged, for:

It explains the *existence of rent*, whereas Ricardo only explains the *existence of differential rents* and actually does not credit the *ownership of land* with any *economic* effect. (TSV, 11, 94.)

As a consequence of landed property, a *non-capitalist* was brought into the social relations of production. He would not be bound by the rules of competition between capitals, yet his contribution of the use of land was an integral and essential component of agricultural production. This gave him the power to siphon off any excess of profit beyond that required to return the general rate and thus attract capital to agricultural production (TSV, 11, 40-2). Marx argued the point through the view of the landowner as follows:

Who is going to prevent me from appropriating this "excess"? Why should I act according to your custom and throw it into the common pot of capital to be shared out among the capitalist class, so that everyone should draw out a part of it in accordance with his share in the aggregate capital? I am not a capitalist. The condition of production which I allow you to utilise is not materialised labour but a natural phenomenon. Can you manufacture land or water or

mines or coal pits? Certainly not. The means of compulsion which can be applied to you in order to make you release again a part of the surplus labour you have managed to get hold of does not exist for me. So out with it! The only thing your brother capitalists can do is to compete against you, not against me. If you pay me less excess profit than the difference between the *surplus time* you have made and the quota of surplus labour due to you according to the rule of capital, your brother capitalists will appear on the scene and by their competition will force you to pay me fairly the *full amount* I have the power to squeeze out of you. (*ISV*, 11, 41-2.)

Howard and King have been critical of Marx's formulation of the theory of absolute rent.<sup>53</sup> Their criticism comprises two components. First, that the theory implies that landowners would "have an interest in preventing the entry of capital into agriculture, which is surely the reverse of the truth". Secondly, that the theory implies the emergence of negative absolute rent when the organic composition of agricultural capital rises, with development, above the average in production. We will argue that neither of these criticisms is valid. Each is superficial and *petitio principii*.

It is not at all clear what Howard and King mean in their first criticism. They cannot be suggesting that *no* capital be used in agriculture. The capital that *is* employed in agriculture would be required to return the general rate of profits. It would thus be in the interest of the landowner to own the capital himself, but this argument is not really relevant here because ownership of capital is not at issue. What is probably meant is that Marx's theory implies that for a given quantity of land, further capital intensity in the working of the land would not be in the interest of landowners. But, Howard and King do not explain why, and their implied reasoning is not suggested by any of Marx's analyses. They do not consider the organic composition of the *additional* capital, and they do not argue its effects on surplus value generation. On the basis of Marx's theory, to the extent that additional capital adds to the difference between agricultural commodity *value* and calculated price of production by raising the surplus value embodied in that value, the landowner has a



positive interest in attracting capital. Only if the additions to capital proceeded so far that, with the diminishing returns in production on the given land, the addition to aggregate surplus value fell below that needed to return the general rate of profits on the additional capital would the landowner begin to lose part of his absolute rent. He would then not wish to attract further capital.

As far as the second criticism is concerned, Marx indirectly refuted such an interpretation. What is more, Howard and King themselves make reference to this point.<sup>54</sup> Marx noted that the origin of absolute rent, the lower than average organic composition of agricultural capital, could be removed over historical time as agriculture developed and employed relatively more constant capital (*TSV*, 11, 93, 103, 105, 244). Absolute rent had no *natural* basis and could disappear. Under such circumstances, there would no longer be any rationale for *private* property in land used for agriculture. The landowner would thus no longer take part in the relations of agricultural production, in which he had no essential role *per se* anyway (*TSV*, 11, 44). A new form of social relations for agricultural production would be required. By virtue of this reasoning, then, any reference to negative absolute rent has no meaning.

As Marx was aware, some *differential* rent may remain once the absolute rent has disappeared. He argued, though, that this rent would be passed to the State, the receiver of the land after the demise of the landowner (*TSV*, 11, 103-4). Even this differential rent would disappear, though, when the *market* basis of agricultural pricing was removed through State ownership of the land (*TSV*, 11, 105-6). Here Marx evidently did not consider that the differential rent alone would be sufficient to preserve landed property in agriculture. He gave the impression of believing that it was but a quantitative modification to total rent based upon the absolute rent principle (*TSV*, 11, 95-6). This really was an empirical assertion that could not be verified or refuted.

7.4 RICARDO'S METHOD AND THE STRUCTURE OF THE *PRINCIPLES*.

Marx's basic attitudes towards Ricardo's method of analysis were posited in the following passage.

Ricardo ... consciously *abstracts* from the form of competition, from the appearance of competition, in order to comprehend the *laws as such*. On the one hand he must be reproached for not going far enough, for not carrying his abstraction to completion, for instance, when he analyses the *value* of the commodity, he at once allows himself to be influenced by consideration of all kinds of concrete conditions. On the other hand one must reproach him for regarding the phenomenal form as *immediate and direct* proof or exposition of the general laws, and for failing to *interpret* it. In regard to the first, his abstraction is too incomplete; in regard to the second, it is formal abstraction which in itself is wrong. (*TSV*, 11, 106.)

Ricardo began the *Principles* with an abstract analysis of value. Marx saw this as an appropriate beginning, but it was not developed to realise its full analytical potential. Ricardo was too close to the empirical phenomena of capitalism and was anxious to reveal their consistency with the labour theory of value. The most serious result of this analytical haste was his erroneous attempt to link the abstract category value *directly* to the concrete distributional forms of profits and wages. As Marx showed, the transformation involved was more complex than Ricardo imagined and had much broader ramifications for interpreting the nature of the capitalist distribution process. Further to this, Marx argued that Ricardo too readily accepted the appearances of capitalism in which its "laws" were *manifested*. At this level of analysis, the "laws" were *given*. Their essential causal roots were not interpreted and the resulting comprehension of the capitalist economy was superficial. *Analysis was used merely to confirm the appearances*. Where some contradiction emerged, as in the case of the labour theory of value, the analysis was forced into the required form (*TSV*, 11, 164).

Ricardo's methodological deficiencies were manifested in what Marx called the "faulty architectonics" (*TSV*, 11, 166) of the *Principles*. Marx

found the theoretical core of the work in its first six chapters, that is to say, in those chapters in which Ricardo outlined his theories of value and distribution. More specifically, the topics treated in these chapters were value, natural and market price, rent, wages and profit. Upon further reflection, Marx decided that the quintessence of Ricardo's analysis could be identified in the first *two* chapters of the *Principles*, "On Value" and "On Rent".

Thus the entire Ricardian contribution is contained in the first two chapters of his work. In these chapters, the developed relations of bourgeois production, and therefore also the developed categories of political economy, are confronted with their principle - the determination of value - and examined in order to determine the degree to which they directly correspond to this principle and the position regarding the apparent discrepancies which they introduce into the value relations of commodities ... [the first two chapters] provide with concise brevity a critique of the old, diffuse and meandering political economy, present the whole bourgeois system of economy as subject to one fundamental law, and extract the quintessence out of the divergency and diversity of the various phenomena. (*TSV*, 11, 196.)

This assessment emphasised the role played by *value* as the fundamental category for Ricardo. It also emphasised the significance of Ricardo's theory of rent. As we shall find in Chapter 8, Section 8.2 below, Marx gave considerable critical attention to this topic in spite of his lack of direct concern with it in his own political economy. The way that Ricardo used this theory was important in comprehending his approach to analysis generally.

The fundamental fault in Ricardo's work was due, Marx argued, to his "method of investigation itself and of the definite task which he set himself in his work" (*TSV*, 11, 167). Marx's meaning here centred upon Ricardo's presumption that the various categories which represented apparent economic phenomena provided a complete grasp of the nature of capitalism. The task which Ricardo had set himself was outlined in the "Preface" to the *Principles*. It was to analyse the effects of growth upon aggregate distribution. Although this analysis implied change, and Ricardo did refer to "different stages of society", his focus was not upon

historical evolution as Marx understood it. Ricardo's basic assumption was that the capitalist system was immutable now that it had evolved.

A consequence of this assumption was that the apparent categories of political economy were accepted as given and immutable too. The roots of these categories were not sought by Ricardo, although he was aware of the analytical changes implied by the transition to industrial capitalism. In addition to this, he also found some evidence of conflict in the system. Marx praised his honesty in portraying the "economic contradiction between classes" under capitalism (*TSV*, 11, 166). Overall, though, his frame of reference was capitalism as he observed it and any dynamics were argued strictly within this frame. By contrast, for Marx, dynamics implied dialectical evolution. The "laws of motion" of capitalism originated in its contradictions and only change, perhaps revolutionary change, could transcend them. This social-historical dimension was not part of Ricardo's analysis.

We note, though, that Marx in no way denied the *existence* or *significance* of the phenomenal categories that were the substance of Ricardo's political economy. They represented capitalist *economic* relations at the *apparent* level and had to be an integral part of any political economy of capitalism. The point was that they were not immutable and that additional categories were needed to grasp the *essential* nature of capitalism in all its social and economic ramifications.

In spite of the limitations of Ricardo's methodology, Marx still found him to be a writer of profound significance in the evolution of political economy. Beyond Ricardo, Marx found little progress in the "science". But he especially stood out in the light of earlier writings as the following laudatory passage showed.

Ricardo ... forces science to get out of the rut, to render an account of the extent to which the other categories - the relations of production and commerce - evolved and described by it, correspond to or contradict this basis, this starting point [the labour theory

of value]; to elucidate how far a science which in fact only reflects and reproduces the manifest forms of the process [of capitalism], and therefore also how far these manifestations themselves, correspond to the basis on which the inner coherence, the actual physiology of bourgeois society rests ...; and in general, to examine how matters stand with the contradiction between the apparent and the actual movement of the system. This then is Ricardo's great historical significance for science. (TSV, 11, 166.)

The richness of Ricardo's analysis for Marx will be made evident in the rest of this Chapter and in Chapter 8.

#### 7.5 RICARDO'S LIMITED TREATMENT OF VALUE AND PRICE.

Marx was impressed by the start which Ricardo made in his political economy. Ricardo focussed upon value theory as the foundation for comprehending the capitalist economy and his chapter on value formed the centrepiece of the *Principles*. In Marx's own work, value theory has a similar status, although for broader and more complex reasons. Be this as it may, Marx still found considerable scope for critique in Ricardo's understanding and use of value theory.

On the concept of value itself, Marx noted that Ricardo had differentiated implicitly between two interpretations of "relative value" but he failed to emphasise the distinction clearly. Exchange-value *appeared* most obviously to imply a ratio of exchange between commodities. Value was evidently "relative" or "comparative" in this sense. Ricardo wanted to base this "relative value" upon embodied labour time due to production. He argued that this expression of "value" had the sense of the "power of purchasing other goods". Now "relative value" in this latter sense could change only if labour content varied to different extents in the commodities being compared. If labour content varied to the same extent in each commodity, then their "relative value" would not be altered, but it could be argued that their "absolute value" had varied.

More or less labour input was required in production to produce each.

For Marx, value, as an *absolute* category, was something which a *commodity* possessed as a consequence of being *produced* in a capitalist economy. This *Value*, as we shall refer to it below, represented the exercise of *abstract* labour and took the *form* of exchange value. *Value* was to Marx an immanent measure of exchange value.<sup>55</sup> In neglecting this absolute basis for exchange value, Ricardo's formulation of "relative value" remained superficial. In Marx's view, Ricardo confused "labour, the *intrinsic* measure of value, with *money*, the *external measure*, which presupposes that value is already determined" (*TSV*, 11, 403). This had the effect of *socially* sterilising his value theory. For while Ricardo was aware of the role played by labour in value generation, he did not analyse the social nature of labour. Labour was more than the substance of value. "But *Ricardo does not examine* the form - the peculiar characteristic of labour that creates exchange value or manifests itself in exchange values - the *nature* of this labour" (*TSV*, 11, 164). Moreover, Ricardo

... only examines the magnitudes of value, the quantities of this abstract, general and, in this form social, labour which ingender differences in the *magnitudes of value* of commodities ... [T]he relativity of the concept of value is by no means negated by the fact that all commodities, in so far as they are exchange values, are only *relative* expressions of social labour time and their relativity consists by no means solely of the ratio in which they exchange for one another, but of the ratio of all of them to this social labour which is their substance. (*TSV*, 11, 172.)

One immediate significance of value theory for Ricardo was as the *basis* for explaining observed commodity prices. This was so for Marx as well, but to a less immediate degree. *In itself*, it was not and could not be a theory of prices in a capitalist economy. Marx's argument revealed that the analytical sequence should provide for prices to emerge as a consequence of the *unity* of production *and* distribution. He found that this was not clear to Ricardo. Ricardo left the value-price-distribution analysis without proper articulation. The stage was set for Marx's critique in the following passage.

In competition, the *cost-price* and not the *value* appears as the regulator of *market-price* - so to speak, as the *immanent price*, the value of the commodity. But in competition this cost-price appears to be represented by the given average rate of wages, profit and rent. Hence Adam Smith tries to establish these separately and independently of the *value* of the commodity - rather as elements of the natural price. Ricardo, whose main concern has been the refutation of this Smithian aberration, accepts the result that *necessarily* follows from it - namely *the identity of values and cost-prices* - although with Ricardo this result is logically *impossible*. (TSV, II, 235, cf.132)<sup>56</sup>

Here Ricardo stood accused of a serious theoretical inconsistency.

While he had argued correctly for the retention of the embodied labour theory of value even in the presence of a class which owned means of production and employed labour, he did not develop the implications of this for the distribution and price-formation processes of competitive capitalism. More than this, though, he failed to recognise that the internal logic of his own argument should have led him to an appropriate analysis of the value-price articulation. The specific problem was the reconciliation of a uniform general rate of profits with variations of capital composition in the production of different commodities. Ricardo was aware of this puzzle, but he could only offer the empirical "solution" that its quantitative significance was not sufficient to warrant anything further. It was Marx's view, then, as expressed in the above passage, that Ricardo had *in effect* identified "value" and price of production. By this we interpret Marx to have meant that Ricardo had been unable to provide a formal, analytical articulation of the two categories even though he was aware, *in principle*, that they required separate identification.

Ricardo's analysis of the value-price issue took a particular form. This followed from the *raison d'etre* of his political economy which was to establish the effects of economic growth and development on the distribution of income. He was concerned to apply the labour theory of value in this growth analysis, but he found that "value" could vary independently of embodied labour through distribution changes. This was the consequence of an inverse relationship between wages and profits and the

need to sustain a uniform general rate of profits in spite of variations in the composition of capital in different sectors of production. With growth, the *Value* of "subsistence" wage commodities would increase domestically because of diminishing returns to marginal extensions of agricultural production. A fall in the general rate of profits followed from this, and to preserve its uniformity across sectors of production, the relative "values" of commodities would have to change. Those commodities produced with high fixed capital to wage capital ratios, with highly durable fixed capital, or with long periods of production in a relative sense would decrease in "value" relative to other commodities.

A fundamental factor underlying the analytical difficulties that Marx found in Ricardo's work was a lack of attention to the appropriate structuring of the analysis. Especially had Ricardo immediately extended the analysis of "value" in Chapter 1 of the *Principles* to include arguments which depended upon *presuppositions* about other categories. Wages, capital and its forms, profit and the general rate of profits were introduced without any analysis of these categories *per se* (TSV, 11, 168). This reflected the "faulty architectonics" of the *Principles* and led Ricardo into many of the difficulties which Marx emphasised in his critique. Marx summarised the main analytico-structural problems as follows:

All Ricardo's illustrations only serve him as a means to smuggle in the *presupposition of a general rate of profit*. And this happens in the first chapter "On Value", while wages are supposed to be dealt with only in the fifth chapter and profits in the sixth. How from the mere determination of the "value" of the commodities their surplus value, the profit and even a *general rate of profit* are derived remains obscure with Ricardo. (TSV, 11, 190.)

In Marx's critique, we can identify several interdependent components. We shall consider each in turn, although in Marx's original manuscript they were presented in a rather less organised format. First, the issue upon which Ricardo focussed was not that which Marx thought to be most essential. For Marx, the crucial issue was to establish the distinction and articulation between *Value* and price of production such that the uniform rate of profits



could be explained. Ricardo presupposed the existence of this rate and did not *explicitly* approach this issue. Secondly, however, Ricardo's analysis effectively embodied this fundamental issue but he did not develop it. By his own argument, value and price could not be identical categories. Thirdly, the limited analysis of capital which Ricardo undertook as part of his treatment of "value" was inappropriate for the purpose. Fourthly, Ricardo's treatment of the role of money in "value" analysis was erroneous. Finally, Ricardo presented a confused analysis of the complex competitive processes which determine *market* price.

As Marx saw it, Ricardo's concern with the effects of distributional changes on "value" determination had prevented him from focussing upon the more fundamental value-price articulation issue.

If Ricardo had gone into this [issue] more deeply, he would have found that - owing to the diversity in organic composition of capital ... - the mere existence of a *general rate of profit* necessitates *cost prices* that differ from *values*. He would have found that, even if *wages* are assumed to *remain constant*, the difference exists and therefore is *quite independent* of the rise or fall in wages ... He would also have seen how incomparably more important and decisive the understanding of this difference is for the whole theory, than his observations on the variations in *cost prices* of commodities brought about by the rise or fall of wages. (*TSV*, 11, 176; and cf. 180.)

Thus the value-price issue as Marx saw it was logically prior to that which Ricardo analysed. Ricardo had effectively argued in terms of prices of production, even though unconsciously, but had not formalised the category. He posited a uniform general rate of profits and did not analyse fully its ramifications. Marx argued that:

Instead of *postulating* this *general rate of profit*, Ricardo should rather have examined in how far its *existence* is in fact consistent with the determination of value by labour time, and he would have found that instead of being consistent with it, *prima facie*, it contradicts it, and that its existence would therefore have to be explained through a number of intermediary stages, a procedure which is very different from merely including it under the law of value. (*TSV*, 11, 174.)<sup>57</sup>

Once Ricardo had *posited* the uniform general rate of profits, it became an integral part of his analysis of what happened to profits on capitals of varying compositions as wages changed. The effect which he

*explicitly* argued, was that relative "values" would be affected to varying degrees depending upon the capital composition in production. What this argument failed adequately to express, in Marx's interpretation, was that the "values" varied in order to preserve the uniform general rate of profits, albeit at a lower level. The *immediate* impact of the wage rise would be to change the profit rates on the various capitals to a different extent. To restore the general rate of profits, then, the relative "values" must be altered (*TSV*, 11, 174-5). The implication drawn by Ricardo from the analysis was that he had identified another determinant of "value" besides embodied labour. Qualitatively this puzzled him. But he "resolved" the problem by noting that the divergence from labour value caused by this effect was *quantitatively* insignificant.<sup>58</sup> Thus changes in "value" came *effectively* only from changes in embodied labour (*TSV*, 11, 193-4).

Marx argued that Ricardo had not presented the significant implication of his analysis. The point was that, having discovered an added dimension of "value" *determination*, Ricardo should have recognised an added *domain* or *category* of "value". Marx's argument on this was presented in the following passage.

... in order to equalise again the profits in the different spheres of production, in other words, to re-establish the *general rate of profit*, the prices of commodities - as distinct from their *values* - must be regulated in a different way. *Therefore*, he further concludes, these differences affect the "relative values" when wages rise or fall. He should have said on the contrary: Although these differences have nothing to do with the values as such, they do, through their varying effects on profits in the different spheres, give rise to ... *cost prices* which are different from the values of the commodities but by the capital advanced for their production plus the average profit. Hence he should have said: These average *cost prices* are different from the *values* of the commodities. Instead, he concludes that they are *identical* and with this *erroneous* premise he goes on to the consideration of rent. (*TSV*, 11, 175.)

Marx considered Sections IV and V of Chapter I of the *Principles*, where this confusion emerged, in some detail. He made a critical assessment of the arithmetical examples given by Ricardo (*TSV*, 11, 180 ff)

and concluded that they could be extended to reveal the nature of the value-price issue more clearly than Ricardo had done.

Ricardo provided an arithmetical model which included three production sectors<sup>59</sup> that we shall call A, B and C. The analysis considered two successive one-year periods of production. Each sector employed 100 men at 50 pounds per year. The assumed rate of profits was 10 per cent. Thus, in year 1, 5000 pounds of capital was advanced in each sector and the resulting commodities had "values" of 5500 pounds. Sectors A and B produced machines for cloth and cotton goods manufacture respectively. Section C produced corn. Because only wage capital was advanced in year 1, price of production and *Value* were identical.

In year 2, A and B advanced capitals comprising 5500 pounds in machinery and 5000 pounds for wages. The "value" of their output Ricardo argued to be 6050 pounds. Section C advanced 5000 pounds for wages, as in year 1, and produced corn of "value" 5500 pounds. Ricardo's point was just that in year 2, "value" generated in Sectors A and B included an additional 550 pounds not due to any increase in embodied labour. The example thus served to emphasise Marx's critique of Ricardo's interpretation of the value-price issue.

One absolutely cannot conceive what Ricardo intended to elucidate in this example, apart from the fact that the cost prices of commodities - insofar as they are determined by the value of the outlay embodied in the commodities plus the same annual rate of profit - *differ* from the values of the commodities and this difference arises because the commodities are sold at prices that will yield the *same rate of profit* on the capital advanced; in short, that this difference between *cost prices* and *values* is identical with a *general rate of profit*. (*TSV*, 11, 182.)

Now as Marx read it, Ricardo's example, which Marx modified to include Sectors B and C only (*TSV*, 11, 182 ff), involved the same variable capital advance and *immediate* labour input in both year 1 and year 2. With no depreciation of fixed capital in year 2 in Sector B and with no fixed capital used at all in Sector C, the *Value* generated in B and C in both years was 5000 pounds of variable capital advanced plus 500 pounds of surplus value.

The implied rate of surplus value was 10 per cent. In year 1 this was also the rate of profit in each sector. However, in year 2, the *immediate* rates of profit, with a 10 per cent rate of surplus value, were approximately 4.8 per cent in B (500/10,500) and 10 per cent in C (500/5000). It was clear to Marx that in the terms of Ricardo's own example, the uniform general rate of profits could not be sustained in year 2 without some *arbitrary* addition to surplus value. Such a solution was not satisfactory and the general rate of profits implied in the example in year 2 would be less than 10 per cent, with cotton goods and corn having prices of production which differed from their *Values*.

Marx went on further to analyse Ricardo's arithmetical example in order to clarify the results that Ricardo could have obtained. The example was a modified version of the one above and was taken from the same place in the *Principles*. The basic data was Ricardo's but the approach was Marx's. Sectors B and C were assumed to have a uniform rate of surplus value of 25 per cent. In year 1, B produced cotton goods *machine* of "value" 500 pounds, and C produced corn of similar "value". Both "values" comprised 400 pounds of variable capital and 100 pounds of surplus value. In year 2, the machine in B was used to produce cotton goods of "value" 1000 pounds, comprising 500 pounds of fixed capital advanced and used up, 400 pounds of variable capital and 100 pounds of surplus value. Sector C produced corn in year 2 of "value" 500 pounds as in year 1. All this, Marx argued, conformed to *Value* theory.

What Ricardo noticed in this part of his example was that no allowance was made so far for the longer period over which capital was advanced in B with no *realised* return. C had been able to sell its corn each year and realise 100 pounds of profit, and this represented an annual rate of return of 25 per cent. B had not realised any profit in year 1 and had advanced an additional 500 pounds of capital in year 2. Thus, if both B and C were to return 25 per cent *overall* for capital advanced over the two years, then

B would have to sell the cotton goods for more than their *Value*. The "value" of the sale would need to be 1125 pounds, comprising 500 pounds for the machine, realising 100 pounds of profit from year 1, 400 pounds for variable capital in year 2, and 225 pounds for profit in year 2 ( $225/900 = 25$  per cent). In this case, then, the cotton goods must be sold at 125 pounds more than their *Value*. But, where was this money to come from? As no surplus value equivalent for it had been produced, both B and C could not realise 25 per cent profit in year 2. Any redistribution of surplus value from C to B would mean that C would have to accept a return less than 25 per cent, even though this was its *immediate* rate of profit. The *immediate* rate of profit in B was  $11\frac{1}{9}$  per cent in year 2. Over the two years, the rates of return were  $15\frac{5}{13}$  per cent in B ( $200/1300$ ) and 25 per cent in C ( $200/800$ ). Marx calculated the average rate of profits to be  $20\frac{5}{26}$  per cent, but this is reduced to  $19\frac{1}{21}$  per cent if a more appropriate weighted average is used (*TSV*, 11, 187, ed. n. 71). Calculations aside, however, the point that Marx wanted to emphasise was that in order to realise a uniform rate of profits in both sectors, the price of production of cotton goods would have to be above *Value* while that of corn would have to be below *Value*.

Marx's conclusion about Ricardo's analyses was that Ricardo had failed to follow through his own logic as implied in the examples.

*Ricardo does not dwell on the conclusion which follows from his own illustrations, namely, that - quite apart from the rise or fall of wages - on the assumption of constant wages, the cost price of commodities must differ from their values, if cost prices are determined by the same percentage of profit. But he passes on ... to the influence which the rise or fall of wages exerts on cost prices to which the values have already been levelled out.*  
(*TSV*, 11, 191.)

Especially, Marx argued, was this shortcoming most evident in a passage at the end of Section V of Chapter 1 of the *Principles*. In this passage, Ricardo came very close to explicating correctly the *analysis* of the value-price of production issue. (Quoted by Marx, *TSV*, 197-8).

It will be seen ... that in the early stages of society, before much machinery or durable capital is used, the commodities produced by *equal capitals* will be nearly of *equal value*, and will rise or fall only relatively to each other on account of more or less labour being required for their production; but after the introduction of these expensive and durable instruments, the *commodities produced by the employment of equal capitals will be of very unequal value*, and although they will still be liable to rise or fall relatively to each other, as more or less labour becomes necessary to their production, they will be subject to another, though minor variation, also, from the rise or fall of wages and profits. Since goods which sell for 5000*£* may be the produce of a capital equal in amount to that from which are produced other goods which sell for 10,000*£*, the *profits on their manufacture will be the same*; but those *profits would be unequal, if the prices of the goods did not vary with a rise or fall in the rate of profit.*<sup>60</sup>

Marx's reading of this passage revealed a necessary logic that distinguished *Value* from price of production. Ricardo had failed to elucidate this logic. In effect, Marx found the following argument in Ricardo's passage. Equal capital comprising advances for wages only generated equal *Values* in embodied labour terms. Once fixed capital was introduced, then the equal capitals would produce equal "values" provided that the capitals had the same fixed capital to wage capital composition. However, when this composition varied in the production of different commodities, then the commodities would not be of equal "value". Indeed, Ricardo's own argument had commodities of "value" 5000 pounds and 10,000 pounds produced by the same capital input. The underlying condition was that the capitals should return a uniform rate of profits. From this analysis, the implication could only have been that the resulting prices of production were categorically distinct from embodied labour *Values*.

From this argument, Marx drew the following conclusion:

Hence it follows, not that values have altered their nature, but that the *prices* are different from *values*. It is all the more surprising that Ricardo did not arrive at this conclusion, for he sees that even if one presupposes cost prices determined by the general rate of profit, a change in the rate of profit (or rate of wages) must change these cost prices, so that the rate of profit in the different spheres of production may remain the same. How much more therefore must the establishment of a general rate of profit change unequal values since this *general rate of profit* is in fact nothing other than the levelling out of these different rates of surplus value in different commodities produced by equal capitals. (TSV, 11, 198-9)<sup>61</sup>

Hence, Marx argued that Ricardo had *demonstrated* the difference between *Values* and prices of production, even if he had not *comprehended* it. Ricardo proceeded to the rest of his analysis on the basis of the "erroneous confusion" evident in this passage (quoted by Marx, *TSV*, 11, 199):

Mr. Malthus appears to think that it is part of my doctrine, that *the cost and value* of a thing should be the same; - *it is*, if he means by cost, "*cost of production*" including profits.<sup>62</sup>

Actually, Ricardo had demonstrated that "cost" including profit at the normal rate differed from *Value*.

The way in which Ricardo handled the category *capital* also drew criticism from Marx. In the present context, his critique centred upon the division of capital rather than upon its conception. Clearly, Ricardo's view of capital was *material* rather than *social* as Marx would have it. But, what was significant here, was that Ricardo used the fixed capital-circulating capital dichotomy to analyse capital in what was essentially a *production* problem. This dichotomy was more appropriately associated with circulation problems (*TSV*, 11, 174). And, indeed, Ricardo was praised by Marx for recognising this (*TSV*, 11, 176).

Ricardo took several approaches to the analysis of capital compositions in the "value" determination problem, each based upon the above dichotomy. Marx summarised these thus:

1. A difference in the proportion of fixed to circulating capital.
2. A difference in the period of turnover of *circulating* capital as a result of a break in the labour process while the production process continues.
3. A difference in the *durability* of fixed capital.
4. A difference in the relative period during which a commodity is altogether subjected to the labour process (without any break in the labour process or without any difference between production period and labour period) before it can enter the actual circulation process.

(*TSV*, 11, 178.)

For Ricardo, the significant point was that irrespective of composition, whatever the basis of its variation, each equal capital had to return the same rate of profit. But, each capital composition variation implied the

employment of different volumes of labour and a change in wages affected the "values" they produced differently and introduced another cause into the determination of "value" (*TSV*, 11, 179).

It was Marx's argument, though, that in spite of Ricardo's efforts to include this variety of compositions, he effectively analysed only that, in one way or another, different capital value was employed with the same volume of labour (*TSV*, 11, 189). It was not the fixed capital to circulating capital ratio which Ricardo actually used to generate "value" variations, but rather the *assumed* uniform rate of profits acting on these different capital values with the same labour input. Indeed, Ricardo did not allow fixed capital or raw materials (both constant capital in Marx's definition) even to *enter* production. The former was not depreciated and the latter was overlooked. Thus, although he *stated* the issue of different capital compositions in the ways outlined by Marx, he did not actually *apply* them in his analyses.

In his critique of Ricardo, Marx also touched upon the puzzle of formulating an external measure of "value" in the form of a money commodity. It was in this context that Marx considered briefly, and dismissed, Ricardo's thoughts on an invariable standard of value.

Marx argued that a change in the *Value* of any money commodity would have no effect upon relative prices. When expressed in terms of the money commodity, relative prices would all be altered to the same extent and only the *absolute level* of prices would be changed. It did not matter what the money commodity was, e.g. gold or wheat, the same reasoning applied. Money "represents a relatively unchangeable medium despite its changeability" (*TSV*, 11, 200). The money commodity's price in terms of itself could never change.

Now the problem which Marx raised in this regard related to the following passage from the *Principles* (quoted at *TSV*, 11, 200).



... [With] a rise in the price of labour ... only those commodities would rise [in price] which had less fixed capital employed upon them *than the medium in which price was estimated*, and ... all those which had more, would positively fall in price when wages rose.<sup>63</sup>

Marx judged that, in this passage, Ricardo was wrong if by prices he meant money prices. But Marx's argument in support of this assertion represented a misinterpretation of what Ricardo was trying to establish. While it was correct, as argued by Marx, that any commodity with the same capital composition in production as the money commodity would not change in relative price *vis-a-vis* money, his logic outlined in our previous paragraph could not be applied in this case. Yet this was what Marx attempted to do (*TSV*, 11, 200-1). In the quoted passage from Ricardo, the relative prices were changed by the wage rise *independently of the change or otherwise in the price of the money commodity*. What Marx did not make clear was that Ricardo sought a money commodity which could be used to measure changes in the "value" of an aggregate product consistently from period to period independently of any changes in distribution. Admittedly, the problem was essentially a *quantitative* one, but it could not be dismissed quite as Marx did.

In the light of the concern that we now know that Ricardo felt for the need to identify an invariable standard of value, there was an irony in Marx's comment that:

... Section VI "*On an Invariable Measure of Value*" deals with the "*measure of value*" but contains nothing important. The connection between value, its immanent measure - i.e. labour time - and the necessity for an *external* measure of the values of commodities is not understood or even raised as a problem. (*TSV*, 11, 202.)

This was a strange assessment and one which Marx did not elaborate upon in the present context. Rather, he promised to return to "this matter which is quite unsatisfactory" in "a subsequent revision of the theory of money" (*TSV*, 11, 202). This task was never undertaken as far as we know.

Ricardo did not formally establish the category price of production. Thus, when he came to analyse the determination of *market prices*, it was

from an ill-defined base that he worked. Marx devoted considerable critical attention to Ricardo's endeavours to provide an explanation of market prices (*TSV*, 11, 203-16).

For Ricardo, the "centre of gravity" of market price was his "natural price" category which Marx found him to identify with both "value" categories, *Value* and price of production. Thus, the fundamental problem which Ricardo faced in this issue, was that for him the process of competition was related only to the dimension of market price adjustments around the natural price. He gave no consideration to the competitive essence of price of production formation. Marx stated the problem this way:

At the beginning of Chapter IV, Ricardo says that by *natural price* he understands the *value* of the commodities, that is, the *price* as determined by their relative labour time, and that by *market price* he understands the accidental and temporary deviations from this natural price or value. Throughout the further course of the chapter - and he is quite explicit in this - he understands something quite different by *natural price*, namely, *cost price* which is different from value. Thus, instead of showing how competition transforms values into cost prices, i.e. creates permanent deviations from values, he shows, following Adam Smith, how competition reduces the market prices in different trades to cost prices. (*TSV*, 11, 211.)

What Marx effectively argued, was that the market price formation process comprised three logical components. These were the competitive establishment of a uniform general rate of profits which generated prices of production which were different from *Values*; the competitive process driving market prices, set by short-run supply and demand criteria, towards prices of production; and the establishment of a uniform *intra-sector* price for a particular commodity.

The basis of these logical components in the explanation of market prices was the uniform general rate of profits. Prices of production were articulated to *Values* via this general rate and market prices tended to centre on prices of production in an endeavour to preserve it. Within a sector of production, the establishment of a uniform price for a particular commodity meant that with variations in techniques of production, the realised rates of profit on the capitals employed may differ from the

general rate. Thus, the competitive process and its consequences were a deal more complex than envisaged by Ricardo.

Now it was clear that Ricardo had argued the issue on the basis of a uniform general rate of profits. He stated this in the following passage from the *Principles* along with the role that he saw competition playing in preserving the general rate. (Quoted by Marx, *TSV*, 11, 212.)

It is then the desire, which every capitalist has, of diverting his funds from a less to a more profitable employment, that prevents the *market price* of commodities from continuing for any length of time either much above, or much below their *natural price*. It is this competition which so adjusts the *exchangeable value* of commodities, that after paying the wages for the labour necessary to their production, and all other expenses required to put the capital employed in its original state of efficiency, the *remaining value or overplus* will in *each trade* be in proportion to the value of the capital employed.<sup>64</sup>

Marx recognised that, *as far as it went*, this statement was quite correct. Market prices adjusted towards natural prices through a process of competitive capital mobility. What was more, the natural price here was appropriately a price of production, and this too was linked to competition. In effect, though, Ricardo had not separated competitive market price determination from the *logically prior* competitive price of production formation, even though both processes were implied in the passage.

Ricardo did not consider explicitly the third logical component of market price formation at all. The underlying issue involved in explaining the uniform intra-sector price of a particular commodity, was the decision about which technique of production should dominate in determining the operational price. Marx argued that it would be the *average* technique in labour productivity terms (*TSV*, 11, 208), although he noted that this would be a *weighted* average, with the weights determined by the proportions of total production of a commodity met by each technique (*TSV*, 11, 205). It was Ricardo's *explicit* view that the determining technique would be the *least* productive.<sup>65</sup> For some reason, however, Marx's interpretation was that Ricardo had also argued an *average* technique approach (*TSV*, 11, 204).

Generally, Marx's own discussion of this issue was not well developed. The *principle* of a uniform price for a particular commodity, and its effects on the realised intra-sector rates of profit, were correctly stated. These *realised* rates of profit had to come from a uniform *market* price at the phenomenal level. What Marx did not discuss were the complex interactions within the competitive process which allowed for these non-uniform, *intra*-sector rates of profit while simultaneously centring market prices around prices of production which were based upon an *inter*-sector uniformity of the rate of profits. Moreover, these prices of production would also have to exhibit intra-sector uniformity for they too were potentially market prices in a situation of zero excess demand. The details of the competitive processes implied by Marx's three logical components of market price determination were not elaborated upon in the present context.

We have seen in this Chapter, then, that Marx found Ricardo's analysis of "value" and the "value"-price of production articulation issue superficial and incomplete on several counts. Methodologically, Ricardo had failed to penetrate the *apparent* categories of political economy in order to reach those categories which would expose what Marx saw as the essential nature of capitalism; *Ricardo's analysis was designed only to confirm the appearances of the system.* This methodological shortcoming was evident in Ricardo's "value" theory. His concept of "value" lacked any *social* dimension which reflected the relations of production of capitalism. In relating "value" to price-of-production, Ricardo had recognised the *principle* of the distinction involved but had not provided a formal, analytical articulation. Rather he dismissed the issue as *empirically* insignificant and thus, in effect, in Marx's view, identified "value" and price-of-production. Moreover, in his "value" analysis, Ricardo had presupposed the general rate of profits category without considering its origins and formation. For Marx, the former should include the latter in an integrated analysis. This Marx was able to provide with his theory of

surplus value. Finally, in discussing the "value" - price of production issue, Ricardo had used the category capital inappropriately. He had failed to capture its *social* dimension and thus its role in the *relations* of production. Analytically, he had used the fixed-circulating dichotomy that was appropriate to an understanding of circulation. He had not devised a dichotomy that captured the role of capital in the production process which logically and actually preceded and dominated circulation.

What also became evident to Marx was that Ricardo had not adequately linked the "value" - price-of-production discussion to a consideration of the distribution process. Especially did this become obvious in Ricardo's endeavours to *explain* non-labour incomes. He carried the burden of the methodological and analytical limitations outlined above into his application of the "value" premises of the *Principles* to the distribution process. In the next Chapter, we discuss Marx's critique of Ricardo's analysis of non-labour incomes.

## NOTES

1. *The Works and Correspondence of David Ricardo*, edited by Piero Sraffa with the collaboration of M.H. Dobb, (Cambridge University Press, London, 1970), Volume 1. This edition will be cited below as Ricardo, *Works*, 1.
2. See Piero Sraffa's "Introduction" to Ricardo, *Works*, 1, and the interchange between Samuel Hollander and John Eatwell in Hollander, "Ricardo's Analysis of the Profit Rate, 1813-15", *Economica*, 40, August 1973; Eatwell, "The Interpretation of Ricardo's *Essay on Profits*", *Economica*, 42, May 1975; and Hollander, "Ricardo and the Corn Profit Model: Reply to Eatwell", *Economica*, 42, May 1975. A similar theme is explored by Krishna Bharadwaj in "Ricardian Theory and Ricardianism, During and After Ricardo", mimeograph, Frankfurt, 1978.
3. An Appendix to this Chapter lists some key contributions to this debate.
4. *Marx After Sraffa*, p.207. Steedman adds the footnote qualification that "It is not implied that all the relevant determinations must be uni-directional". To some degree, then, Steedman allows for an *interdependence* between the social and the physical-technical dimensions of capitalism. His vision of the nature of this interdependence is yet to be revealed.
5. "Marx's Theory of Value and the 'Transformation Problem'," p.110.
6. "Marx's Theory of Value and the 'Transformation Problem'," p.136.
7. *Ten Great Economists* (George Allen & Unwin, London, 1966), p.26.
8. *History of Economic Analysis* (George Allen & Unwin, London, 1954), p.390, emphasis original. Schumpeter provided some evidence for his assertion; see, for example, pp.390-1, 596, 649, 681, 682n, 685.
9. Meek, *Studies in the Labour Theory of Value*, pp.166 ff., and Dobb, *Theories of Value and Distribution Since Adam Smith*, Chapter 6, *passim*.
10. "Ricardo and Marx", *Economica*, 28, August 1961.
11. "Ricardo and Marx", p.261.
12. "Ricardo and Marx", p.261.
13. "Ricardo and Marx", p.262.
14. "Ricardo and Marx", p.267.
15. "Ricardo and Marx", p.267.
16. "Ricardo and Marx", p.269.
17. "Value and Price in the Marxian System", [1907], *International Economic Papers*, 2, 1952.

18. "Value and Price", p.52n 116.
19. "Value and Price", p.28.
20. Ricardo, *Works*, 1, pp.36-7.
21. "Value and Price", p.30.
22. "Value and Price", pp.31-2.
23. "Value and Price", p.51n 110, and cf. p.33.
24. "Value and Price", p.52.
25. "Value and Price", p.53 and 54. I have not been concerned in the present context with Bortkiewicz's direct criticisms of the mathematical complexities implied by Marx's analyses. Ian Steedman, *Marx After Sraffa*, has recently developed a similar thesis to that of Bortkiewicz. By contrast, endeavours to present *sound* interpretations and extensions of Marx's *own* analyses continue to be produced with greater and lesser degrees of consciousness of the limitations of those analyses. Thus, any reading of Steedman's book should be tempered by a reading of the works by Ira Gerstein, Geoffrey Harcourt and Prue Kerr, Susan Himmelwiet and Simon Mohun, Heinz Kurz, Frank Roosevelt, Anwar Shaikh, and David Yaffe listed in the Appendix to this Chapter.
26. See: *Theories of Value and Distribution Since Adam Smith*.
27. In *Classical Political Economy and the Rise to Dominance of Supply and Demand Theories* and "Maurice Dobb's Critique of the Theories of Value and Distribution".
28. *The Structure of Classical Economic Theory*, p.3, emphasis original.
29. "Maurice Dobb's Critique of Theories of Value and Distribution", p.159. Cf. p.170 and *Classical Political Economy and the Rise to Dominance of Supply and Demand Theories*, pp.14, 24, 29-31, 60. See also Garegnani's "On the Theory of Distribution and Value in Marx and the Classical Economists". The essential nature of the capitalist value and distribution articulation continues to generate controversy. The focus of the controversy has become Piero Sraffa's *Production of Commodities by Means of Commodities: Prelude to a Critique of Economic Theory*, (Cambridge University Press, London, 1960), and the relationship of his analyses to those of Ricardo and Marx. Besides Steedman's *Marx After Sraffa*, there is also Alessandro Roncaglia's guide to the debate in his *Sraffa and the Theory of Prices*, (Wiley and Sons, Chichester, 1978). The ideas of Sraffa, Steedman, Roncaglia and Garegnani on this issue are reviewed in John Eatwell, "Marx, Sraffa and After", mimeograph, Cambridge, August 1979. Geoffrey Harcourt sets the debate in the context of the capital theory controversy in his "Non-neoclassical Capital Theory", *World Development*, forthcoming.
30. "Profits and Surplus-Value: Appearance and Reality in Capitalist Production" in E.K. Hunt and J.G. Schwartz (eds.), *A Critique of Economic Theory*, (Penguin Books, Harmondsworth, 1972), Reading 13, p.313, emphasis original.

31. "The Law of Value in Ricardo and Marx".
32. "Law of Value", p.284, emphasis added.
33. "Law of Value", pp.293-4, emphasis original.
34. "Law of Value", p.297.
35. "Marx as an a-Ricardian: Value, Money and Price at the Beginning of *Capital*", *Economy and Society*, 2, 3, August 1973.
36. "Marx as an a-Ricardian", p.421.
37. On this point, see the "Editor's note" to Susan de Brunhoff, "Controversies in the Theory of Surplus Value: A Reply to John Eatwell", *Science and Society*, 38:4, Winter 1974-75, p.479.
38. "Marx as an a-Ricardian", p.424, emphasis original.
39. "Controversies in the Theory of Surplus Value: Old and New".
40. "Controversies in the Theory of Surplus Value", p.282. Eatwell credits Pierangelo Garegnani with the development of this idea.
41. "A Reply", p.481, emphasis original.
42. "Controversies in the Theory of Surplus Value: A Comment", *Science and Society*, 38:4, Winter 1974-75.
43. "A Comment", p.484, emphasis original.
44. "A Comment", p.487.
45. "The Anomalies of Capital", *Capital and Class*, 6, Autumn 1978.
46. "The Anomalies of Capital", p.72.
47. "The Anomalies of Capital", pp.82-3.
48. "The Anomalies of Capital", p.73, emphasis original.
49. "The Anomalies of Capital", p.78.
50. J.K. Rodbertus-Jagetzow, *Sociale Briefe an von Kirchmann. Dritter Brief: Widerlegung der Ricardo'schen Lehre von der Grundrente und Begründung einer neuen Rententheorie*, Berlin, 1851. For a detailed analysis of Marx's relationship with Rodbertus see Engels' Preface to *Capital*, Volume 11.
51. See my "Aspects of Marx's *Grundrisse* as Intellectual Foundations for a Major Theme of *Capital*".
52. Marx's critique of Rodbertus went well beyond this point. See *TSV*, 11, 60-66 and 71-94.
53. *The Political Economy of Marx*, p.140.
54. *The Political Economy of Marx*, p.114.



55. This interpretation of *Value* in Marx's work has recently been espoused by Anwar Shaikh, "Marx's Theory of Value and the 'Transformation Problem'," pp.111-3, and by Susan Himmelweit and Simon Mohun, "The Anomalies of Capital", pp.67-8, 72-6.
56. In this passage, the word "appears" is used in two senses. On the first occasion, "appears" implies that market prices are *actually* based on cost prices. On the second occasion, "appears" implies the *phenomenal* as distinct from the *essential*. At the level of observed phenomena, the cost-price appears to be a summation of distribution based costs.
57. Marx added here that Ricardo "would then have gained an altogether different insight into the nature of profit and would not have identified it directly with surplus value". This assertion was reiterated at *TSV*, 11, 193 and will be developed in Chapter 8, Section 8.3 below.
58. Ricardo, *Works*, 1, 36.
59. Ricardo, *Works*, 1, 33-4.
60. Ricardo, *Works*, 1, 42-3, Marx's emphasis.
61. In the last sentence of this passage, Marx used "*rate of surplus value*" to mean immediate ratio of surplus value to total capital employed in the different sectors of production and not in the more usual sense of the ratio of surplus value to *variable* capital only. The formation of a general rate of profits depended upon the levelling out of the immediate sectoral rates of profit.
62. Ricardo, *Works*, 1, 47n, Marx's emphasis.
63. Ricardo, *Works*, 1, 46, Marx's emphasis.
64. Ricardo, *Works*, 1, 91, Marx's emphasis.
65. Ricardo, *Works*, 1, 73, quoted by Marx, *TSV*, 11, 203.

## APPENDIX: MARXISM AND NEO-RICARDIANISM.

The substance of the debate over the value-price-distribution issue between these two schools of thought is represented by the following *selected* contributions.

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## CHAPTER 8

MARX'S CRITIQUE OF RICARDO'S ANALYSIS OF SURPLUS VALUE IN ITS  
PHENOMENAL FORMS.

## 8.1 PRELIMINARY REMARKS.

The centrepiece of Marx's critique of all political economy, and of Ricardo's especially because it represented the intellectual summit of the "science", was that it had failed explicitly to consider the category of surplus value independently of its phenomenal forms (*TSV*, 1, 40). The true *origin* of non-wage incomes had not been explained as a consequence.

Marx approached the critique of Ricardo's analysis of non-wage income generation in three stages. First, he considered Ricardo's analysis of rent, a category which had a significant role in the *Principles*. Marx's treatment was extensive (*TSV*, 11, 114-160 and 236-341) and included the historical origins and a critique of Ricardo's theory of differential rent, an analysis of the category absolute rent, and a mass of supporting arithmetical calculations. His general objective was to reveal the limitations of Ricardo's rent analysis both in its principle and in the examples used to support it. In order to do so, he worked through alternative and extended cases which gave results that were opposed to those found by Ricardo. More specifically, though, Marx noted that he did "not intend to give a detailed exposition of rent until dealing with landed property *ex professo*" and that "here the purpose is only to set forth the general law of rent as an illustration of my theory of value and cost prices" (*TSV*, 11, 269). As it turned out, the analysis went somewhat beyond this brief.

Secondly, Marx argued that in considering profit, Ricardo had formally

analysed its generation in relation to capital advanced to employ labour. He gave little attention to fixed capital and raw materials as integral parts of the explanation of profit. This effectively meant that Ricardo's analysis related to surplus value rather than to profit directly. However, his analysis was set in a production context dominated by agriculture and he did not abstract sufficiently to consider production *per se* in which the juxtaposition of wage and non-wage incomes, irrespective of the *form* of the latter, could be examined. Thirdly, then, Marx considered Ricardo's treatment of profit as an extension of the implied principle of surplus value. Marx's argument here was that in order actually to consider *profit*, a more complex analysis than that provided by Ricardo was necessary. Especially had Ricardo failed adequately to explain the general rate of profits even though he had used the category.

## 8.2 CRITICAL ANALYSIS OF RICARDO'S THEORY OF RENT.

Marx began his detailed critical analysis of Ricardo's theory of rent with a brief historical excursus as background. He found that the principle of differential rent, the principle he called the "Ricardian Law of Rent", was devised by the Scot James Anderson during the 1770s as an incidental by-product of that writer's concern to promote stable agricultural development. Anderson had related the emergence of rent to that excess "profit" which was associated with wheat production on land of varying fertilities at varying costs (including some general standard of profit) in a situation of uniform market price (*TSV*, 11, 146-7). Where the cost of production coincided with the market price, as Anderson thought to be probable on the least fertile land, no rent could be appropriated. Anderson had noted that the fertility of land was not merely a function of nature and that the *pattern* of differential rents could be altered over time by artificial improvements in fertility.

Leaving Adam Smith's treatment of rent aside for later treatment, Marx made the point that Anderson had not been concerned to develop the theory of rent as an explicit topic with theoretical significance *per se*. This development, Marx argued, was left to Sir Edward West and Thomas Malthus whose pamphlets dealing with the subject appeared in 1815. In Anderson's era, wheat prices were not the cause of great concern. The empirical evidence tabulated by Marx (*TSV*, 11, 133 ff) revealed that these prices had declined for most of the seventeenth century and during the first half of the eighteenth century. An upward trend began about the middle of the eighteenth century but it did not become a problem until the period 1800-1820. Then the price of wheat rose very rapidly and debate over the Corn Laws took on a new vigour. In this context, the problem of explaining, and perhaps justifying rents was viewed as an important one by West and Malthus.

As Marx read these pamphlets, West was the more original in his presentation of the rent principle (*TSV*, 11, 115). Malthus was viewed by Marx not only as a plagiarist of Anderson in this matter, indeed as a "plagiarist by profession" (*TSV*, 11, 115), but also as an arch apologist for and defender of the landowners. Marx expressed, with considerable vituperation, his finding that Malthus had distorted Anderson's thesis where necessary in order to bring it into accord with his own theoretical and political predilections (*TSV*, 11, 115 ff).

Ricardo, also working in an environment of very high wheat prices and active Corn Law debate, followed on in this tradition of developing rent theory as a significant responsibility of political economy. In the Preface of the *Principles*, Ricardo gave West and Malthus credit for presenting the "true doctrine of rent" and noted that "without a knowledge of which, it is impossible to understand the effect of the progress of wealth on profits and wages".<sup>1</sup>

For Marx, one significant feature of this development of the theory

of rent was that its frame of reference was *capitalist production*. He argued that, unlike continental European experience, capitalism in agricultural production was well advanced in England by the time that Ricardo formulated his analyses. Unfettered by such deeply ingrained land holding traditions as those evident on the Continent, the English could link land usage to the profit motive more readily. This, Marx argued, had been aided by the enclosure movement which made agriculture a more defined process of production. In all, he observed that:

... nowhere in the world has capitalist production, since Henry VII, dealt so ruthlessly with the *traditional* relations of agriculture, adapting and subordinating the conditions to its own requirements. In this respect England is the most revolutionary country in the world. Wherever the conditions handed down from history were at variance with, or did not correspond to, the requirements of capitalist production on the land, they were ruthlessly swept away ... (TSV, 11, 237.)

Moreover, the colonisation movement, based as it was, to some extent, upon capitalist premises, led to an increased consciousness of the role of capital in agricultural development (TSV, 11, 239).

It was quite appropriate, then, for Ricardo to begin from the pre-supposition that agricultural production was capitalist. He proceeded on the assumption that capital was mobile as between sectors of production, including agriculture, and that agriculture would not experience any shortage of capital (TSV, 11, 239).

For Marx, rent, as was the case with all distribution categories, was a *social* phenomenon. What he wished to emphasise in his critique was that rent could not simply be ascribed to *nature* (TSV, 11, 96). An explanation of rent had to flow directly from the theory of surplus value.

Marx specified two forms of rent which were defined according to their *origin* and hence their explanation. *Differential rent* was the originally devised principle of rent upon which Ricardo focussed exclusively. It was the consequence of the realisation of differential "value". This "value" arose through some differential in the production conditions of a commodity that generated individual (immediate) produced "values" which differed from



a uniform market "value". The market "value" was argued to be determined by one particular production "technology" from amongst those involved in the production of the commodity. Just which "technology" was to be chosen as the determinant of market "value" varied. The original principle of differential rent assumed that the least productive "technology" would dominate. Marx argued that such need not be the case. In principle, the only requirement for differential rent was that some individual produced "value" of the commodity should be below the ruling market "value". The principle involved, and its general applicability in capitalist production, was outlined by Marx in the following passage.

This differential rent merely corresponds to the *excess profits* which, given ... the *market value*, will be made in every branch of industry ... by *that* capitalist whose conditions of production are *better* than the average conditions of this particular trade. For the *value* of the commodity of a particular sphere of production is determined, not by the *quantity of labour* which the individual commodity costs, but by the quantity which *the* commodity costs that is produced under the *average* conditions of the sphere. (TSV, 11, 240-1.)

What Marx wanted to emphasise in *his* formulation of the differential rent principle was that Ricardo's version was too specific in its assumptions. Ricardo had not only limited the *principle* to agriculture, but also had argued that market "value" would necessarily be determined by the "value" of the commodity produced on the least fertile land. While this latter point embodied a correct principle, it was too restrictive.

This law, that the *market value* cannot be *above* the individual *value* of that product which is produced under the *worst conditions of production* but provides a part of the necessary supply, Ricardo distorts into the assertion that the market value cannot fall *below* the value of that product and must therefore always be determined by it. We shall see later how wrong this is. (TSV, 11, 271.)

Moreover, Ricardo omitted another consideration in his restrictive approach to rent theory:

Manufacture and agriculture only differ from one another here in that in the one, the excess profits fall into the pocket of the capitalist himself, whereas in the other they are pocketed by the landowner, and furthermore, that in the former they are *fluid*, they are not lasting, are made by this capitalist or that, and always

disappear again, while in the latter they *become fixed* because of their enduring (at least for a long period) natural basis in the *variations in the land*. (TSV, 11, 241.)

Thus, in manufacture, the competition between capitals would, in a short time, remove any "excess" profits due to technological differentials in production implemented by particular capitalists. While this sort of differential would always be present, it was "*fluid*" in the sense of moving between capitalists as their relative position in the technology matrix changed. This was not so in agriculture. As was argued in Chapter 7, Section 7.3 above, rent was appropriated by landowners on the basis of their private property in the land which was an essential input into agricultural production. Differential rent could not be competed away by capital, but it could disappear as fertility changes were superimposed artificially on the "*natural basis*" of the differentials in production.

The other form of rent which Marx considered was *absolute rent*. The principle involved in this case was outlined in Section 7.3 above. Ricardo had not recognised the possibility of this alternative form of rent and it thus represented a further omission from his analysis. The explanation for this omission was his lack of recognition of price of production as distinct from *Value* and his failure to analyse the differences in the compositions of capital between agriculture and manufacture. For Ricardo, *Value* and price of production were effectively the same thing and the embodied labour theory of value was preserved in spite of the emergence of rent by positing rent in its differential form only. This was ensured by the existence of the no-rent margin of land which produced wheat at the embodied labour value which determined the uniform market price.

Marx's response to this was that Ricardo's understanding of rent was based upon the empirically false assumption that land could be taken up at the margin as a free resource. No rent had to be paid because no *property* was involved. Marx argued by way of the *absolute* rent principle that rent on *all landed property* was possible and was explained consistently with the

labour theory of value. Fertility variations and differential rent merely *modified* the absolute rent pattern.

Ricardo was aware, however, that the no-rent margin need not be an extensive one. It could be that additional capital (including wage capital) was applied to land already under cultivation and that diminishing returns would ensure a lift in the marginal value generating differential rent paid by capitals already employed. Howard and King have argued that Marx missed this point in his critique. "Marx's apparent neglect of the *intensive* margin thus destroys his critique of the Ricardian rent theory".<sup>2</sup> Our reading is different. In at least two places Marx explicitly considered the concept of an intensive margin in Ricardo's work (*TSV*, 11, 95 and 332). Marx recognised that *land* at the *extensive* margin could bear a *differential* rent and that this would not contradict the labour theory of value. But, this recognition did not destroy his critique of Ricardo's treatment of rent. As we have seen already, and as we shall develop further below, Marx's critique was not simply premised upon there being a no-rent extensive margin of free land in Ricardo's assumptions. It was broader than this. Moreover, the emergence of the intensive margin did not mitigate Ricardo's omission of *absolute rent* as Howard and King appear to argue. The rent based on the intensive margin was still *differential* rent and there is *not* a "perfectly valid sense in which *all* rent is differential rent".<sup>3</sup> Such an argument joins with Ricardo in neglecting the capital composition effects on "value", effects which operate independently of *any* marginal argument.

It will be useful at this point, before we proceed to a more detailed consideration of Marx's critique of Ricardo's treatment of rent, to formalise the two definitions of rent involved (*TSV*, 11, 293-4). Let:

mv = market *Value*

cp = "cost price" (price of production measured in *Value* terms)

iv = individual *Value*

- $c$  = constant capital  
 $v$  = variable capital  
 $s$  = surplus value  
 $r$  = general rate of profits  
 $e$  = rate of surplus value

Thus:

$$cp = c + v + r.(c + v)$$

$$\begin{aligned}
 iv &= c + v + s \\
 &= c + v + e.v
 \end{aligned}$$

*Absolute rent* is then given by:

$$\begin{aligned}
 Ra &= (iv - cp) \\
 &= e.v - r.(c + v)
 \end{aligned}$$

To formalise *differential rent* we must recall that *market Value* will be determined by a particular individual *Value* generated by a particular technology from amongst those used to produce the total output of the commodity. Differential rent will be associated with all those capitals (applied to land in agriculture) which could produce at an individual value below the market value. In the simplest case, where market *Value* is determined by the highest individual *Value*, differential rent will be given by:

$$Rd = (mv - iv)$$

*Total rent* will comprise absolute and differential rent and can be expressed as:

$$\begin{aligned}
 Rt &= Ra + Rd \\
 &= (mv - cp)
 \end{aligned}$$

In formulating his theory of rent, Ricardo had applied only the differential principle. In so doing, he also made the unwarranted empirical assumption that the expansion of agricultural production followed a land usage sequence which involved *descending* productivity. And, Marx argued, not only was this assumption unwarranted, but also it was unnecessary for differential rent could be generated in the case of *ascending* productivity as well.

In both cases the only requirement is that the newly cultivated land is necessary but at the same time only just sufficient to satisfy the additional demand. If the newly cultivated, better land were *more* than sufficient to satisfy the additional demand then, according to the volume of the additional demand, part or all of the inferior land would be thrown *out of cultivation* ... Thus differential rent does not presuppose a *progressive deterioration of agriculture*, but can equally well spring from a *progressive improvement* in it. (TSV, 11, 241.)

Marx argued, then, that Ricardo's analysis was restrictive in this sense also. He devised some arithmetical examples (TSV, 11, 251 ff) in order to

... show how the general law [of differential rent] explains a great multiplicity of combinations, while Ricardo, because he had a false conception of the general law of rent, perceived only one side of differential rent and therefore wanted to reduce the great multiplicity of phenomena to one single case by means of forcible abstraction. (TSV, 11, 270.)

The essential result of Marx's lengthy calculations on differential rent was that the same principle could be applied in both ascending and descending productivity cases. In positing three grades of land in ascending productivity I-II-III, it did not matter in which order they were brought into use. If increased demand involved progression from III and II to I, then the total demand would be provided for at  $mv = iv_1$ , with differential rent increasing on III and emerging on II. In the reversed case, where expanding demand was met by transition from I to II to III, the highest individual *Value* would still dominate the market *Value* determination with  $mv = iv_1$ . As II and III were brought into use, each would bring forth a differential rent. In the case of II, the rent would be  $(mv - iv_{II})$ , and for III the rent would be  $(2mv - iv_{II} - iv_{III})$ . Marx

concluded:

If, therefore, I determined the market value in the descending line, it determines it in the ascending line *for the same reasons*. (TSV, 11, 273.)

Should it be the case that the extensions to III resulted in I being taken out of production even with the increased demand, then  $mv = iv_{III}$  would emerge. However, the principle of differential rent would still apply with  $Rd = (mv - iv_{III})$ .

Marx drew together the threads of his critique of Ricardo's treatment of rent in the following passage. It thus provides an appropriate conclusion for this section of the Chapter.

Ricardo explained differential rent from an *absolute decrease in productivity* in agriculture. Differential rent does not presuppose this, nor does Anderson make this assumption. On the other hand Ricardo denies the existence of absolute rent because he assumes the *organic composition of capital* to be the same in industry and agriculture and so denies the purely historical fact of the *lower development* of the productive power of labour in agriculture as compared with manufacture. Hence he falls into a twofold historical error: On the one hand, he assumes that the productivity of labour in agriculture is *absolutely the same* as in industry, thus denying a purely *historical* difference in their actual stage of development. On the other hand, he assumes an *absolute decrease in the productivity of agriculture* and regards this as its law of development. He does the one in order to make *cost price* on the worst land equal *value* and he does the other in order to explain the differences between the *cost prices* [of the products] of the better kinds of land and their *values*. The whole blunder originates in the confusion of *cost price* with *value*. (TSV, 11, 244.)

This 'whole blunder' pervades Ricardo's treatment of the value-price-distribution issue. As we show in the next section, Marx found the same confusion in Ricardo's formulation of the theory of profit.

### 8.3 RICARDO'S IMPLIED PRINCIPLE OF SURPLUS VALUE IN HIS THEORY OF PROFIT.

The fundamental participants in the capitalist mode of production were the capitalist and the wage labourer. It was their relationship which manifested the *essential* nature of capitalism which Marx intended to reveal. He commented upon this socio-economic dichotomy and its methodological

implications as follows:

It is entirely in accord with the standpoint of capitalist production that ... economists, especially Ricardo, start from a *division into two*, between capitalist and wage labourer, and only bring in the landowner who draws a rent at a later stage, as a special excrescence. Capitalist production is based on the antithesis of two factors, materialised labour and living labour. Capitalist and wage labourer are the sole functionaries and factors of production whose relationship and confrontation arise from the nature of the capitalist mode of production.

The circumstances under which the capitalist has in turn to share a part of the surplus labour or surplus value which he has captured, with a third, non-working person, are only of secondary importance. It is also a fact of production, that, after the part of the value which is equal to constant capital is deducted, the *entire surplus value passes straight from the hands of the worker to those of the capitalist*, with the exception of that part of the value of the product which is paid out as wages. The capitalist confronts the worker as the *direct* owner of the entire surplus value, in whatever manner he may later be sharing it with the money-lending capitalist, landowner etc. (*TSV*, 11, 152.)

This passage provides the framework for the discussion in this section, even though we have followed Marx and treated his critique of rent first. We recall, though, that this treatment flowed from what Marx saw as the immediate connection of rent with the value-price issue and Ricardo's confused emphasis on rent theory as a fundamental category. For Marx, Ricardo's analysis of the capital-labour relationship was a more essential object of his critique.

Ricardo, in common with all political economists, had failed to explicate *surplus value* as the essential origin of all non-wage incomes, especially profit. It was the case, though, Marx argued, that for much of his analysis of the theory of profit, Ricardo confused profit with what was effectively surplus value. Ricardo's *analysis* had focussed attention on capital advanced to pay wages, variable capital in Marx's classification. The conclusion which he drew thus largely applied to the theory of surplus value rather than to the theory of profit.

In his observations on profit and wages, Ricardo ... abstracts from the constant part of capital, which is not laid out in wages. He treats the matter as though the entire capital were laid out directly in wages. *To this extent*, therefore, he considers *surplus*

*value* and *not profit*, hence it is possible to speak of his theory of surplus value. On the other hand, however, he thinks that he is dealing with profit as such, and in fact views which are based on the assumption of profit and not of surplus value, constantly creep in. Where he correctly sets forth the laws of surplus value, he distorts them by immediately expressing them as laws of profit. On the other hand, he seeks to present the laws of profit directly, without the intermediate links, as laws of surplus value. (TSV, 11, 373-4.)

This confusion on Ricardo's part was integrally related to his difficulties with value-price theory.

An explanation of the division of aggregate net *Value* of production (after replacement of constant capital used up) between capital and labour required that the labour input be appropriately valued. As Marx noted: "In order to determine surplus value, Ricardo, like the Physiocrats, Adam Smith, etc., must first determine the *value of labour power*, or, as he puts it - following Adam Smith and his predecessors - the value of labour" (TSV, 11, 399).

The valuation principle applied had to be consistent with the embodied labour theory of value. This implied that "labour" had to be conceived of as a *commodity form*. Here, again, Marx found that Ricardo's powers of abstraction were not adequate to grasp the essential category involved. For Ricardo, the endeavour to value "labour" in terms of wages retained a circularity that could only have been broken by drawing a clear distinction between "labour" as an *activity, living labour*, and "labour" as a commodity, as *labour power*, the capacity to provide living labour.

It had been clear to Adam Smith, that the embodied labour value of a commodity produced in a *capitalist* production system did not equal the quantity of labour that the commodity could command in exchange. The consequence of this was Smith's rejection of the embodied labour theory in favour of a labour commanded *measure* of a natural-cost based value.

Ricardo was critical of this rejection by Smith and had endeavoured to preserve the embodied labour theory of value in capitalist production. Marx found, however, that Ricardo could not value "labour" consistently with this



theory. The valuation problem involved was posited by Marx in the following passage.

It is clear that the proportional quantity of labour contained in two commodities A and B, is absolutely unaffected by whether the workers who produce A and B receive much or little of the product of their labour. The value of A and B is determined by the *quantity of labour* which their production costs, and not by the *costs of labour* to the owners of A and B. Quantity of labour and value of labour are two different things ... A and B are exchanged not in proportion to the *paid* labour contained in them, but in proportion to the total quantity of labour they contain, paid and unpaid. (TSV, 11, 395-6.)

Marx argued that provided direct *materialised* labour was being considered, then the *value of labour* and the *quantity of labour* were "equivalent expressions" in the sense that embodied labour comprised *paid* labour only. Once *living* labour was exchanged against materialised labour, as appeared to be the case in capitalism, then "labour" *Value* could not be the same as the quantity of living labour embodied in the commodity (TSV, 11, 396-7).

Thus, the issue was, as Marx posed it:

... how does the commodity of labour differ from other commodities? One is *living labour* and the other *materialised* labour. They are, therefore, only two different forms of labour. Since the difference is only a matter of form, why should a law apply to one and not to the other? Ricardo does not answer - he does not even raise this question. (TSV, 11, 397-8.)

And, furthermore, "Ricardo is satisfied with demonstrating that the changing value of labour - in short, wages - *does not invalidate* the determination of the value of the *commodities*, which are distinct from labour itself, by the relative quantity of labour contained in them" (TSV, 11, 397).

Ricardo did approach the issue of valuing "labour" indirectly but correctly in devising the category "*real wage*". This "real wage" comprised the embodied labour value of the socio-historically modified basket of subsistence wage commodities (TSV, 11, 404) and its concept was outlined in conjunction with a supply and demand process which effectively constrained the wage to this level. But, in Marx's view, Ricardo had relied too heavily upon the supply and demand process to the exclusion of any

comprehension of the *nature* of the capital-labour relationship under capitalism. It was this relationship that really provided the basis for valuing "labour", and as Ricardo had neglected to consider it, his argument fell short of what was required.

The relationship involved power relativities. The only commodity which the worker possessed was *labour power*. For this commodity to have its *Value* realised, the potential that it represented had to be demanded by the capitalist. Only *capital* had the power to mobilise living labour, for it was the basis of property in the means of production with which labour *had* to work in order to produce *Value* and realise its own *Value*.

As Marx saw it:

Instead of *labour*, Ricardo should have discussed *labour power*. But had he done so, *capital* would also have been revealed as the material conditions of labour, confronting the labourer as power that had acquired an independent existence and capital would at once have been revealed as a *definite social relationship*. (*TSV*, 11, 400.)

In this social situation, the worker had no option but to accept that commodity wage which was consistent with the reproduction of labour power and maximisation of surplus value generation.

Marx added one important qualification to his critique of Ricardo on this point. The hint of the social ramifications of wage determination was embodied in Ricardo's concern with the wage *share* in total value produced.

It is one of Ricardo's great merits that he examined relative or proportionate wages, and established them as a definite category. Up to this time, wages had always been regarded as something simple and consequently the worker was considered an animal. But here he is considered in his social relationships. The position of the classes [relative] to one another depends more on relative wages than on the absolute amount of wages. (*TSV*, 11, 419.)

In Ricardo's work, the immediate result of his inability to distinguish labour and labour power, and his failure to explore the social ramifications of such a distinction in the capital-labour relationship, was that he did not recognise the *source* of surplus value. Marx put the point this way:

Ricardo of course assumes that the labour time contained in the daily means of subsistence is equal to the labour time which the labourer must work daily in order to reproduce the value of these means of subsistence. But by not *directly* showing that one *part* of the labourer's *working day* is assigned to the reproduction of the value of his own labour power, he introduces a difficulty and obscures the clear understanding of the relationship. A twofold confusion arises from this. The *origin of surplus value* does not become clear ... But because thus the origin and nature of surplus value is not clearly comprehended, the surplus labour plus the necessary labour, in short, the *total working day*, is regarded as a fixed magnitude, the differences in the amount of surplus value are overlooked, and the productivity of capital, the *compulsion to perform surplus labour* - on the one hand [to perform] absolute surplus labour, and on the other its innate urge to shorten the necessary labour time - are not recognised, and therefore the *historical* justification for capital is not set forth. (*TSV*, II, 405.)

Thus Marx argued that Ricardo had not analysed the roles of capital and labour in the *Value* generation process fully enough. The *working day* was a significant category that could not be taken as *given* and *fixed*. As a first principle, it had to be of sufficient length to allow for the generation of a *surplus* value in production. That length was such that aggregate living labour performed exceeded that labour necessary to provide for the *Value* of labour power, given the labour productivity in those sectors of production which produced "subsistence" wage commodities. Marx extended this argument as follows:

Furthermore, it is clear that though the existence of *surplus labour* presupposes that the productivity of labour has reached a certain level, the mere *possibility* of this surplus labour ... does not in itself make it a *reality*. For this to occur, the labourer must first be *compelled* to work in excess of the [necessary] time, and this compulsion is exerted by capital. This is missing in Ricardo's work, and therefore also the whole struggle over the regulation of the normal working day. (*TSV*, II, 406.)

Ricardo did not reveal any awareness of the significance of the working day for surplus value generation. Having taken the day as given and fixed, he did not consider the possibility that aggregate surplus value, and probably, aggregate profit, could be affected by a change in the length of the working day. This was a significant omission by Ricardo, for it qualified severely "*his law* ... that surplus value and wages (he erroneously says profit and wages) in terms of exchange-value can rise or fall only in

*inverse* proportion ...". A change in the working day would change *absolute* surplus value without any necessary effect upon the wages aggregate. By arguing the necessary inverse relationship between "profit" and wages, Ricardo was implying a principle of *relative* surplus value only (*TSV*, 11, 413 and 417-8).

A difficulty which Ricardo's analysis of "profit" generation presented as a consequence of his confining his attention to wage capital was illustrated in the following assertion from the *Principles*: "The labour of a million men in manufactures, will always produce the *same value*, but will not always produce the same riches" (quoted by Marx, *TSV*, 11, 414).<sup>4</sup> As Marx noted, this would only be the case where all capital advanced was variable capital, even assuming a given working day.

He is ... only right in the *one* case, where the total capital equals the variable capital; a presupposition when pervades all his, and Adam Smith's observations regarding the capital of society as a whole, but in capitalist production this precondition does not exist in a single branch of industry, much less in the production of society as a whole. (*TSV*, 11, 414.)

Once constant capital used up in production was introduced, the immediate *Value* produced by a given volume of labour could vary upwards from the *Value* determined in the presence of variable capital only. The constant capital used up transferred its *Value*, whatever it may be, to the aggregate of produced *Value* (*TSV*, 11, 414-5). This greater *Value*, Marx judged, would occur in spite of increased labour productivity which would follow the introduction of constant capital and would lower the total variable capital needed to employ the given volume of labour. Marx concluded:

It is evident ... that if the length of the working day is given, the value of the annual product of the labour of one million men will differ greatly according to the different amount of constant capital that enters into the product; and that, despite the growing productivity of labour, the value of this product will be greater where the constant capital forms a large part of the total capital, than under social conditions where it forms a relatively small part of the total capital. (*TSV*, 11, 416.)

Consideration of profit in the context of variable capital advances only led Ricardo into further difficulties with the theory of the rate of

profits. He was effectively arguing in terms of surplus value generation and the rate of profits which he formulated was strictly a rate of surplus value. The upshot of this was that Ricardo's analysis of profit rate determination was too restrictive. It was the case "... the laws of surplus value - or rather of the rate of surplus value - (assuming the working day as given) do not so directly and simply coincide with, nor are they applicable to, the laws of profit, as Ricardo supposes" (*TSV*, 11, 426).

The rate of surplus value and the rate of profits were independent categories and their relationship required careful analysis. Especially were the following factors relevant in demonstrating this independence (*TSV*, 11, 426-7). First, a change in the rental share of produced *Value* can produce a change in the rate of profits without any alteration in the *Value* of labour power and hence in the rate of surplus value. Secondly, with aggregate surplus value equal to aggregate profits, the former may vary with a change in the rate of surplus value and/or a change in the number of workers employed. Thus the same aggregate profits may exist with a lower rate of surplus value compensated for by an increase in labour employed. Thirdly, with a given rate of surplus value, the rate of profits depends upon the organic composition of capital. Fourthly, and a corollary of the previous point, with given surplus value amount, the rate of profits will vary with changes which affect the values of capital components differently. Finally, capital composition effects on the rate of profits also arise from the circulation process.

The identification of surplus value and profit led Ricardo into a situation where his analysis of the formation of the general rate of profits was not developed fully. Marx's assertion of this shortcoming was quite precise:

Some of the observations that occur in Ricardo's writing should have led him to the distinction between surplus value and profit. Because he fails to make this distinction, he appears in some passages

to descend to the vulgar view ... that profit is a mere addition over and above the value of the commodity; for instance when he speaks of the determination of profit on capital in which fixed capital predominates ... This vulgar view is bound to arise, if the proposition (which in practice is correct) that on the average, *capitals of equal size yield equal profits* or that profit depends on the size of the capital employed, is not connected by a series of intermediary links with the general laws of value etc.: in short, if profit and surplus value are treated as identical, which is only correct for the aggregate capital. Accordingly Ricardo has no means for determining a *general rate of profit*. (TSV, 11, 427.)

The basic principle upon which Ricardo worked in his theory of the rate of profits was that it varied inversely with a change in the "value of labour". As the "value of labour" rose, the required wage capital advances to employ a particular labour input rose. The effect of this was to lower the "profit" relative to the capital advanced because the "value" of production did not rise to compensate for the increased capital requirement.

Be this as it may, Marx still found several passages in the *Principles* in which Ricardo went beyond this restrictive view (TSV, 11, 427 ff). In these passages, Ricardo recognised that the rate of profits was affected by changes in capital inputs other than those advanced for wages. Especially did he analyse the effects of raw materials *Value* increase (an increase in constant capital in Marx's definition). No longer was surplus value identical to profit, even though Ricardo did not use the former category. Marx concluded after discussing these passages:

What is important here is only something which Ricardo is not aware, namely, that he throws overboard his identification of profit with surplus value and [admits] that the rate of profit can be affected by a variation in the value of constant capital independently of the value of labour. (TSV, 11, 431.)

This recognition, however, remained informal in Ricardo's analysis. He remained quite unclear as to how, precisely, the general rate of profits was determined. As we have discussed already in the context of the value-price analysis (Chapter 7, Section 7.5 above), this determination required the category of price of production which Ricardo did not use. Moreover, the analysis required the explications of the rate of surplus value as a

category separate from the rate of profit whatever the capital compositions involved. Marx stated concisely his critique of Ricardo on this issue in the following passage.

It is evident, that the emergence, realisation, creation of the *general rate of profit* necessitates the *transformation of values* into *cost prices* that are *different* from these values. Ricardo on the contrary assumes the identity of values and cost prices, because he confuses the rate of profit with the rate of surplus value. Hence he has not the faintest notion of the general change which takes place in the *prices* of commodities, in the course of the establishment of a general rate of profit. He accepts this rate of profit as something pre-existent which, therefore, even plays a part in his determination of *value* ... *Having postulated the general rate of profit*, he only concerns himself with the exceptional modifications in prices which are necessary for the *maintenance* ... of this *general rate of profit*. He does not realise at all that in order to *create* the general rate of profit values must first be transformed into cost prices and that therefore, when he presupposes a general rate of profit, he is no longer dealing directly with the *values* of commodities. (TSV, 11, 434.)

Thus Marx brought together in this summary his fundamental critique of Ricardo's treatment of the value-price-distribution issue. Ricardo had not been able to abstract from observed phenomena to a degree sufficient to capture the essential nature of pricing and distribution under capitalism. He had begun appropriately by defending the embodied labour theory of value against Adam Smith's confusions on the theory. However, he had not proceeded at that level of abstraction into the immediate analytical implications of the theory for the essential nature of distribution. The effect was the logically premature use of the phenomenal categories market price, profit and rent instead of price of production and surplus value. It was Marx's view, then, that Ricardo was left with an ill-formed theory of distribution and that this had profound effects on his endeavours to formulate the "laws of motion" of capitalism, especially with respect to the "dynamics" of distribution.

Marx's critico-historical analysis of the "laws of motion" of capitalism will be considered in Chapters 11, 12 and 13 below. Before turning to this subject, however, we devote the next two Chapters to Marx's critical assessment of some reactions to Ricardo's theory of "value" and

distribution. First, we deal with what may be called the 'mainstream' reactions by pseudo-disciples and critics. Secondly, we consider some 'radical' reactions and then move on to some subtle extensions of Ricardo's contributions. In this second context, Marx was dealing with writers, who, to various extents, impressed him.



## NOTES

1. Ricardo, *Works*, 1, 5.
2. *The Political Economy of Marx*, p.140, emphasis original.
3. *The Political Economy of Marx*, p.140, emphasis added.
4. Ricardo, *Works*, 1, 273, Marx's emphasis.

## CHAPTER 9

'MAINSTREAM' REACTIONS TO RICARDO'S THEORY OF VALUE  
AND DISTRIBUTION.

## 9.1 INTRODUCTION

In the part of Marx's critique of political economy with which we are concerned in this Chapter and the next, the limited scope of his approach to the task becomes more evident than was the case with the writers so far considered. He was especially selective in his treatment of those writers who followed Ricardo, confining his attention to a very limited number of passages from only some of their works. By no means were all aspects of these writers' contributions to political economy given due recognition. Marx was a cogent but narrow critic of political economy after Ricardo.

Marx's approach is explained to some extent if we recall that he did not intend to write a treatise on the history of political economy. His work was under the title "Theories of surplus value" and this was the theme to which he adhered. He was concerned to examine the post-Ricardo endeavours to come to grips with the ambiguous analytical legacy left by Ricardo. The point of the critique was to reveal the weaknesses of these endeavours in the light of his own formulation of the theory of surplus value and its ramifications for the value-price-distribution issue and the "laws of motion" analysis of the capitalist economy. It was Marx's conclusion that none of the writers had realised the *potential* of Ricardo's analyses for the development of an essential comprehension of the nature of the capitalist system. Indeed, most had mitigated against this realisation through their writings.

The themes which Marx chose to emphasise in this part of the critique centred around the nature and role of capital in the production and distribution of value and surplus value. An integral part of this analysis was a consideration of the writers' conceptions of value and the nature of the capital-labour relationship.

Amongst the writers selected by Marx for varying degrees of critical attention, we have identified four groupings. First, there were those who Marx interpreted to be critics of Ricardo's work. Most prominent in this group was Thomas Malthus to whose published writings Marx devoted considerable vituperative criticism. Others in this group were Robert Torrens and Samuel Bailey. To the second group we have attached the label "pseudo-disciples". It was James Mill and J.R. McCulloch who, in their endeavours to espouse and popularise the essentials of Ricardo's analyses, had only managed, Marx felt, to obscure the really significant parts of the *Principles*. As he put it:

... [Ricardo's] disciples have resorted to the most pitiful scholastic inventions, to make these phenomena [of value and distribution] consistent with the fundamental principle [of the labour theory of value] (see [James] Mill and the miserable McCulloch). (*TSV*, 11, 191.)

From this group, we consider John Stuart Mill as a separate case, most especially because Marx's treatment failed even to approach a full appreciation of Mill's contributions to political economy.

All of the writers in these two groups Marx considered had, to varying degrees, vulgarised Ricardo's analyses in their roles as apologists for the capitalist system. Each had contributed to the decline of political economy and, except for Malthus, they were all treated under the heading "Disintegration of the Ricardian School" in the "Theories of surplus value" manuscripts. However, they comprised the main writers in the orthodox evolution of political economy based on Ricardo's *Principles*. For this reason, we consider them in the present Chapter as forming the "mainstream" reaction to Ricardo's legacy.

The third group that we identify, comprised those we have called "radical" in the sense that they took up Ricardo's analyses for the purpose of exposing the miserable conditions under which nineteenth century workers existed. They were critics of capitalism devoted to the cause of improving these conditions and the writers Marx chose to feature were Piercy Ravenstone, Thomas Hodgskin, John Bray and the anonymous author of a pamphlet in this tradition. In the manuscripts, they were grouped under the heading "Opposition to the Economists (Based on the Ricardian Theory)". Fourthly, Marx selected for special treatment the writers George Ramsay, Antoine-Elisee Cherbuliez and Richard Jones. Each had, in Marx's view, some strength of analysis worthy of individual note in the context of "Theories of surplus value". Their work included some subtle extensions to Ricardo's ideas which Marx found to be in advance of what had been achieved by others. These two groups will be considered in Chapter 10 below.

It is surprising that Marx did not include in the present context the Swiss political economist Jean-Charles-Leonard Simonde de Sismondi. There were several references to his work in "Theories of surplus value", but Marx reasoned that a fuller treatment should come later when the competition of capitals was considered (*TSV*, 111, 53). In the light of how much consideration of the competition of capitals was undertaken in "Theories of surplus value", this is a less than satisfying explanation.

What mention there was of Sismondi was in the context of other writer's use of his work. Malthus was accused of direct plagiarism from Sismondi's *Nouveaux Principes d'economie politique* (*TSV*, 111, 53). Cherbuliez's work was also interpreted by Marx to be "Sismondian", but this was more acceptable than was the case with Malthus (*TSV*, 111, 362, 382, 396-8). In addition, though, Marx did give some hints in passing of the substantive contributions made by Sismondi. He was aware of the social implications of capital and recognised the contradiction that, while labour

was argued to be the source of value, most of what was produced accrued to the capitalist giving the appearance that it originated with capital (TSV, 111, 259, 424). Sismondi also interpreted crises to be the consequence of immanent contradictions in capitalism, especially that production was motivated by exchange value without due consideration of effective demand based upon use value (TSV, 111, 56, 84). It really is to be regretted that Marx did not, as far as we know, ever undertake a detailed critique of Sismondi's significant contributions to political economy.<sup>1</sup>

## 9.2 MALTHUS' REACTION.

In his critique of Malthus, Marx referred to the following three works (TSV, 111, 13):

*The measure of Value stated and illustrated with an Application of it to the Alterations in the Value of the English Currency since 1790.* (1823)

*Definitions in Political Economy, preceded by an Inquiry into the Rules which ought to guide Political Economists in the Definition and Use of their Terms; with Remarks on the Deviation from these Rules in their Writings.* (1827)

- also: new edition, with a preface, notes and supplementary remarks by John Cazenove. (1853)

*Principles of Political Economy considered with a View to their practical Application,* [1820], second edition, (1836).

Of these works, Marx made most direct references to *Definitions*, especially the 1853 edition, although the other two were quoted at some length also. Our understanding of Marx's critique of Malthus' reaction to Ricardo's work must, however, be tempered by the fact that Marx had access to neither the extensive Ricardo-Malthus correspondence nor the "Notes" which Ricardo wrote on Malthus' *Principles*. Modern appreciation of the Ricardo-Malthus relationship has depended very much on these two sources.

Marx interpreted Malthus' writings of the 1820s and 1830s as explicit reactions to Ricardo's *Principles*. He ascribed this reaction to both an intellectual rationale and to his view that Malthus was an arch apologist for the landowners against whose interests Ricardo's analyses were directed.

The following passages may be used to illustrate Marx's views on this (cf: *TSV*, 111, 14, 57.)

His [Malthus'] *Principles of Political Economy* was a polemic work written in the interests of the capitalists against the workers and in the interests of the aristocracy, Church, tax-eaters, toadies, etc., against the capitalists. Its *theory* was taken from Adam Smith. (*TSV*, 111, 61-2.)

We have seen how childishly weak, trivial and meaningless Malthus is when, basing himself on the weak side of Adam Smith, he seeks to construct a counter-theory to Ricardo's theory, which is based on Adam Smith's stronger sides. One can hardly find a more comical exertion of impotence than Malthus's book on value. (*TSV*, 111, 53.)

Thus, more specifically, it was Malthus' reaction to Ricardo's critique of Adam Smith's value theory that was the foundation of his work. As Marx read it:

Malthus correctly draws the conclusions from his basic [labour commanded] theory of value. But this theory, for its part, suits his purpose remarkably well - an apologia for the existing state of affairs in England, for landlordism, "State and Church" ... assailed by the Ricardians as so many useless and superannuated drawbacks of bourgeois production .... (*TSV*, 111, 51-2.)

But, Marx argued, Ricardo had left himself open to this sort of reaction because he had failed to develop a fully consistent theory (*TSV*, 111, 14). Malthus attacked him at his weak points and was effective even though the result was analytically reactionary. Thus, Marx was able to write that:

*Malthus* bases his polemic against Ricardo's definition of value entirely on the principles advanced by Ricardo himself, to the effect that variations in the exchangeable values of commodities, independent of the labour worked up in them, are produced by the different composition of capital as resulting from the process of circulation - different proportions of circulating and fixed capital, different degrees of durability in the fixed capitals employed, different returns of circulating capitals. In short, on Ricardo's confusing cost price with value and regarding the equalisation of cost prices, which are independent of the mass of labour employed in the particular spheres of production, as modifications of value itself, thereby throwing the whole principle overboard. Malthus seizes on these contradictions in the determination of value by labour time - *contradictions that were first discovered and emphasised by Ricardo himself* [emphasis added] - not in order to solve them but in order to relapse into quite meaningless conceptions and to pass off the mere *formulation* of contradictory phenomena, their expression in speech, as their solution. (*TSV*, 111, 29; cf. 14.)<sup>2</sup>

Thus Ricardo's inconsistencies were used by Malthus to formulate a view of

capitalist value and distribution theory which was quite different from that of Ricardo. This view, Marx considered, was more "acceptable to his protectors" (*TSV*, 111, 14).

Moreover, whereas Ricardo had employed the category of "relative wages", the wages share, in his approach to distribution, Malthus rejected this idea. He saw it to be an inappropriate way to conceive of wages which were an *absolute* factor in cost of production. Marx ascribed Malthus' view on this important issue to his apologetic stance towards capital against the interests of workers. For Marx, the concept of a wage - "profit" trade-off had given Ricardo an implied principle of surplus value (see above, Chapter 8, Section 8.3). Thus: "It is important further in regard to the social relationship between the two classes. Malthus smells a rat and is therefore constrained to protest" (*TSV*, 111, 33-4).

It was significant, though, Marx found, that Malthus had reflected upon the unequal exchange implied by the capital-wage labour relationship. (*TSV*, 111, 14). The problem was, as Ricardo saw it, to retain the embodied labour theory of value in the *capitalist* production context as the basis for explaining the value of labour inputs and commodities produced. This valuation principle had to be consistent with the existence of "profit" and Ricardo had not established this rigorously. Malthus's response was to retreat to a labour commanded measure of value based upon a cost of production formulation. What this amounted to was expressed by John Cazenove in his Preface to the 1853 edition of Malthus' *Definitions*:

*Interchange of commodities and Distribution* (wages, rent and profit) must be kept distinct from each other ... the Laws of Distribution are not altogether dependent upon those relating to interchange. (non-verbatim quotation, *TSV*, 111, 15.)

On this point, Marx concluded that:

Here this can only mean that the relation of wages to profit, the exchange of capital and wage labour, of accumulated and immediate labour, do not *directly* coincide with the law of the interchange of commodities. (*TSV*, 111, 15.)

In order to explain profit, Malthus resorted to the subterfuge that,

somehow, the *utilisation* of materialised labour as constant capital enabled surplus living labour to be commanded when the commodity was sold (*TSV*, 111, 16). Thus:

... Malthus inevitably arrives at the point of deriving profit from the fact that the seller sells his commodity not only *above* the amount it costs *him* (and the capitalist does this), but above what *it costs*; he thus reverts to the vulgarised conception of profit upon expropriation .... (*TSV*, 111, 20.)

Moreover, his value theory was circular as a consequence of simply adding on profit. Marx was induced to pose Malthus' reasoning in the following way:

Where do the funds for the profit come from, where does the surplus product in which the surplus value manifests itself come from? If it is simply a matter of nominal increase of the money price, then nothing is easier than to increase the value of commodities. And what determines the value of the capital outlay? The *value* of the labour contained in it, says Malthus. And what determines this? The *value* of the commodities on which the wages are spent. And the value of these commodities? The value of the labour plus profit. And so we keep going round and round in a circle. (*TSV*, 111, 32.)

Now, in spite of this, Marx found that Malthus had correctly surmised that capital advanced to pay wages should be separated from capital for instruments of production and raw materials. Thus he effectively posited a variable-constant capital dichotomy (*TSV*, 111, 36). From this, Malthus did make an attempt in his *Definitions* to relate "profit" to variable capital only and so conflated surplus value and profit as Ricardo had done. The analysis was tautological though and Malthus remained locked into circular reasoning (*TSV*, 111, 36-8). Introduction of constant capital only compounded the problem.

Let us assume a capital consisting not merely of variable but also of constant capital. "... the capitalist [...] expects an equal profit upon all the parts of the capital which he advances". This however contradicts the proposition advanced above that profit (it should be called surplus value) is determined by the proportion of the capital expended on wages. But nevermind. Malthus is not the man to contradict either the "expectations" or the notions of "the capitalists". (*TSV*, 111, 38.)

Overall, then, Malthus' attack on the ambiguity of Ricardo's value-price-distribution analysis did not advance political economy very far.



Indeed, the net result was more of a regression to the least effective parts of Adam Smith's analyses. In the next section of our study, we shall see that those who applied themselves most to *supporting* Ricardo against attacks did little better in Marx's view.

### 9.3 PSEUDO-DISCIPLES OF RICARDO.

It is argued that James Mill, John McCulloch and Thomas de Quincey were the main popularisers and propagators of Ricardo's ideas. Joseph Schumpeter writes that these three were "the only unconditional adherents and militant supporters of Ricardo's teaching who gained sufficient reputation for their names to survive".<sup>3</sup> Schumpeter finds that these writers add little of any significance to Ricardo's analyses, and what they did - especially Mill and McCulloch - was of doubtful value. In his view they did not even sum up Ricardo's theories adequately or recognise the potential of the *Principles*. Their superficial interpretations designed to simplify the work did nothing for the cause of developing and advancing Ricardo's thought, although Schumpeter recognises also that it was the immanent weaknesses of the analytical core of this thought that was the contributing factor in its decline of influence.<sup>4</sup>

Eric Roll expresses similar views to these, and he proceeds to make the very significant point that in their endeavours to promote Ricardo's ideas against the critics, these writers did not come to grips with the ambiguities involved. In their writings "the contradictions and confusions of Ricardo are either repeated, glossed over, or left out".<sup>5</sup> Mark Blaug dissents from this view and emphasises that these writers were more than mere popularisers of Ricardo. He sees them as having made significant independent contributions to political economy.<sup>6</sup>

Marx's thoughts on these writers, especially Mill and McCulloch, for he wrote very little on de Quincey, were closest to those of Schumpeter and

Roll. In his characteristic style, though, the thoughts were expressed more vigorously. Marx found that Mill and McCulloch had vulgarised and obfuscated Ricardo's potential contributions to political economy and had effected the disintegration of Ricardian influence. In their endeavours to clarify the *Principles*, they removed what Marx saw as its historically essential reflection of capitalism as prone to contradictions. Thus it was

... Mill and McCulloch, who, in order to reason the contradictory phenomena out of existence, seek to bring them into direct conformity with the general law [of value] by gabble, by scholastic and absurd definitions and distinctions, with the result, by the way, that the foundation itself vanishes. (*TSV*, 111, 29.)

In the case of James Mill particularly, Marx arraigned him against Ricardo in the following passage.

With the master what is new and significant develops vigorously amid the "manure" of contradictions out of the contradictory phenomena. The underlying contradictions themselves testify to the richness of the living foundation from which the theory itself developed. It is different with the disciple. His raw material is no longer reality, but the new theoretical form in which the master had sublimated it. It is in part the *theoretical disagreement of opponents of the new theory* and in part the *often paradoxical relationship of this theory to reality* which drive him to seek to *refute* his opponents and *explain away* reality. In doing so, he entangles himself in contradictions and with his attempts to solve these he demonstrates the beginning *disintegration of the theory* which he dogmatically espouses. (*TSV*, 111, 84-5.)

Thus Mill was faced with the twofold task of de-emphasising the contradictions of capitalism and of Ricardo's *Principles*. In this, Marx considered Mill to have failed in the sense that his arguments were quite unsound. Marx did qualify his view of Mill in one way, though. He noted that Mill had stressed more than Ricardo the need to defend industrial capital against the interests of landed property, even to the point of nationalising land. Having made this qualification, Marx added immediately that: "This conclusion and this side of Mill do not concern us here" (*TSV*, 111, 85). This serves to remind us of the restricted nature of Marx's critique.

Marx's view of McCulloch was similar but expressed less temperately:

Whatever Mill had done to Ricardo's analyses, McCulloch had made worse.

When we come to deal with McCulloch, it will be seen that this manner, which appears in Mill only in embryo, did more to undermine the whole foundation of the Ricardian theory than all the attacks of its opponents. (*TSV*, III, 88.)

McCulloch, the vulgariser of Ricardian political economy and simultaneously the most pitiful embodiment of its decline. He vulgarises not only Ricardo but also James Mill. He is moreover a vulgar economist in everything and an apologist for the existing state of affairs. (*TSV*, III, 168.)

In his critique of James Mill's *Elements of Political Economy*, Marx focussed upon Mill's endeavours to overcome the ambiguity in Ricardo's treatment of the value-price-distribution issue. Especially did Mill aim at resolution of the capital-labour relationship problem in which the exchange between living labour and materialised labour did not conform completely to the embodied labour theory of value. "Profit" clearly had to be an argument in the "value" formation process.

Marx began by noting that, as was the case with political economists generally, Mill had confused profit with surplus value. In not separating these categories, his explanation of profit could not be presented in its necessary analytical articulation with surplus value. One consequence of this was that Mill puzzled over the effect on "profit" of circulation time which reflected the use of fixed capital in more round about production processes. This time, for no apparent reason, added to the "value" of commodities. The problem was specifically couched in terms of the wine maturation process. Mill's pseudo-solution to the rise in "value" during maturation was to impute added labour in proportion to the "value" - time lapse relationship. To Marx, this sophism was quite unacceptable.

Here the contradiction between the general law [of value] and further developments in the concrete circumstances, is to be resolved not by the discovery of the connecting links but by directly subordinating and immediately adapting the concrete to the abstract. (*TSV*, III, 87.)

The "connecting links" were quite obvious to Marx. In the example cited by Mill, it was not *value* at all that was at issue. In valuing the wine, what was necessary was that the "value" should return the general rate

of profits on the capital employed for whatever period was involved in the maturation. The fact that this was constant capital only in the form of maturing wine stock and that no variable capital was involved was irrelevant. The process of competition would ensure that the *price of production* of the wine would be appropriate to return the general rate of profits on wine capital whatever the time profile of the production process itself (*TSV*, 111, 86-7).

In dealing with the capital-labour relationship directly, Marx quoted Mill to the effect that payment of wages in advance amounted to the pre-purchase by the capitalist of labour's share in the value of production (*TSV*, 111, 88-9). What the relationship involved, then, was an exchange in which:

... Mill transforms the labourer into a commodity owner who sells the capitalist his *product*, his *commodity* - since his *share* of the product, of the commodity, is his *product*, his *commodity*, in other words, a value produced by him in the form of a particular commodity. He resolves the difficulty by transforming the transaction between capitalist and labourer, which includes the contradiction between materialised and immediate labour, into a common transaction between commodity owners, owners of materialised labour. (*TSV*, 111, 89-90.)

The worker was thus, *per se*, rendered completely propertyless. He did not have anything of his own to sell. Marx argued that this hypothesis served to increase the obscurity of the capital-labour relationship rather than to decrease it. For now, the worker was simply a seller of *commodities produced* just as was the capitalist. The puzzle of explaining the value of what the worker actually "exchanged" with the capitalist was avoided.

Marx's critique of Mill on this point was, in part, marred by a *non sequitur* in his interpretation of an arithmetical example based upon the above reasoning (*TSV*, 111, 90-2.) Marx specified a case in which the worker was involved in producing 6 yards of linen of which 2 yards was considered to be his property. This was "sold" to the capitalist in accord with Mill's argument. Marx reasoned that it would be necessary for the worker to receive less than the full value of the 2 yards so "sold". Thus,

he argued, if the money expression of the value was 2 shillings per yard, then for the capitalist to receive any surplus, either the worker would have to receive less than 2 shillings per yard, or the 6 yards would have to be sold for more than 12 shillings. The law of value was not sustained in this transaction.

Now Marx's argument here was simply illogical. Rather than contradicting the law of value, this example revealed a consistent principle of surplus value formation. The linen produced could be sold at its value and this value was then divided between that which the capitalist paid for, the 2 yards he "bought" from the worker at its value of 2 shillings per yard, and that which the capitalist did not pay for, the 4 yards produced by the worker and expropriated by the capitalist as surplus value.

In spite of this argument, though, Marx's critical stance against Mill was still quite appropriate. Marx substantiated this in subsequent argument. The significant point was that Mill had dodged the issue of valuing the "labour" input consistently with the labour theory of value. He had no category akin to labour power which reflected the actual nature of the power relativities in the capital-labour relationship. The "share" of produced value which "belonged" to the worker was not explained. Mill's resort to supply and demand forces in the labour market was rejected by Marx for it amounted to abandoning the problem unexplained.

What has to be determined is "the proportion in which they" (Capitalists and workers) "divide the product". In order to establish this by competition, Mill *assumes* that this proportion "*has fixed itself* at some particular point" ... *before* competition. ... But what is the wage rate when demand and supply balance? That is the point which has to be explained. It is not explained by declaring that this rate is *altered* when the equilibrium between demand and supply is upset. Mill's tautological circumlocutions only demonstrate that he feels there is a snag here in the Ricardian theory which he can only overcome by abandoning the theory altogether. (TSV, III, 96-7.)

What Marx did not apparently notice was that Mill did reveal some limited consciousness of an exercise of power in the striking of a *wage bargain*.

Indeed, Marx quoted the relevant passage from the *Elements* twice (*TSV*, 111, 93 and 95). This idea was not, however, integrated into Mill's general analysis of the capital-labour relationship.

What Mill had especially failed to explicate was the principle, adumbrated by Ricardo, that the value of "labour" was logically prior to any consideration of labour's share in value produced. The share that the worker receives

... is determined by the value of labour, not conversely, the value of labour by his share in the product. The value of the labour, that is, the labour time required by the worker for his own reproduction, is a definite magnitude; it is determined by the sale of his labour power to the capitalist. This virtually determines his share of the product as well. It does not happen the other way round .... This is precisely one of Ricardo's most important and most emphasised propositions, for otherwise the price of labour would determine the prices of the commodities it produces, whereas, according to Ricardo, the price of labour determines nothing but the *rate of profit*. (*TSV*, 111, 94.)

Overall, then, Marx argued that Mill had not resolved the ambiguity left by Ricardo in his analysis of the capital-labour relationship and the generation of "profit". Mill had just evaded the issue by expressing it in different forms rather than actually resolving it.

Another aspect of Mill's *Elements* to which Marx objected was the reiteration of the idea, posited by Ricardo, that the general rate of profits must be determined by the rate of profit in agriculture (*TSV*, 111, 99 ff). Marx's objection had three main facets. First, *historically* the direction of rate of profit equalisation implied was from manufacture, in which the capitalist mode of production originated, to agriculture which was dominated by capital only with a lag. Marx provided no real substantiation for this argument which, even if he believed it to be empirically correct, was probably not in the spirit of Mill's point. Secondly, and more significantly, there was a mutual interdependence between sectors of production which mitigated against any uni-directional causation.

There was, as well, a third objection developed by Marx and which took two forms. This involved the theory of rent. Ricardo formulated a

theory of *differential* rent which Marx argued actually required that the manufacture rate of profit dominate that in agriculture. A rise in the price of wheat would, with a given supply, force a fall in the manufacture rate of profit but leave the agriculture rate unaffected *immediately*. The incentive was present, as a consequence, for additional capital to flow into agriculture and expand production at the margin under inferior conditions. The rate of profit in agriculture would then be depressed towards that in manufacture. Marx's analysis was, though, incomplete in that he did not consider the consequent *rise* in wheat price as a result of the marginal production. This rise would feed back to reduce the rate of profit in manufacture further and a complex iteration could ensue (with some considerable lags).

The other dimension of this third objection to Mill's assertion concerned Marx's theory of *absolute* rent. For this to be a viable theory, it was essential that the rate of profit in manufacture had priority over that in agriculture. The former was established independently of agriculture by way of the formation of prices of production from the redistribution of *manufacturing* surplus value in proportion to capitals employed. Agriculture was not involved in this process because of landed property which could appropriate absolute rent. This appropriation was conditional upon agricultural capital receiving the general rate of profits as determined in the manufacture sectors.

In the *Elements*, Marx also found that Mill had not revealed the contradiction inherent in the unity of use value and exchange value in the commodity (*TSV*, 111, 88). Marx had considered this aspect of Mill's work in the 1859 *Contribution to the Critique of Political Economy* (see *CPE*, 97 and 180-1). Mill formulated his analysis of the circulation process effectively in barter terms. In this situation, with buying and selling unified, the unity of exchange value and use value did not involve any contradiction and effective reproduction was assured. But, Mill was not

consistent in this for he argued the circulation process in money terms. Once this was allowed for, Marx pointed out, the post-production circulation process could impede reproduction. This argument about "Say's Law" forms part of Marx's treatment of the "laws of motion" of capitalism and will be taken up in more detail in Chapter 11 below.

In his reading of McCulloch, Marx included two main sources: *The Principles of Political Economy: with a Sketch of the Rise and Progress of the Science* (1825), and "Notes, and supplemental Dissertations" to Adam Smith, *Wealth of Nations*, 1828 edition.

Marx began his critique of McCulloch by quoting a passage from John Cazenove's *Outlines of Political Economy* (1832) in which the confusion evident in McCulloch's treatment of "value" was revealed (TSV, 111, 169). McCulloch drew the distinction between *real value* and *exchangeable value*, the former being a production based embodied labour value, the latter an exchange based labour commanded value. Having made this distinction, McCulloch then had great difficulty with the relationship between them. This difficulty was especially obvious when the "value" of labour was discussed. McCulloch:

... goes too far ... since the Malthusian definition of exchange value - the quantity of wage labour which a commodity commands - already sticks in his throat. He therefore defines relative value as the "quantity of labour, or of any other commodity, for which it" (a commodity) "will exchange" .... Thus "in the ordinary state of things" a commodity only exchanges for a quantity of wage labour equal to the quantity of labour contained in it. The workman receives in wages just as much materialised labour as he gives back to capital in the form of immediate labour. With this the source of surplus value disappears and the whole Ricardian theory collapses. (TSV, 111, 170-1.)

What McCulloch attempted in trying to make Ricardo's theory consistent, was to use the labour commanded notion revived by Malthus from Adam Smith. Marx found this odd, for *Malthus* had used this approach in *opposition* to Ricardo, and here was McCulloch trying to use it to support Ricardo. Marx concluded that: "McCulloch therefore does not understand the essential kernel of Ricardo's teaching - how profit is realised because commodities



exchange *at their value* - and abandons it" (*TSV*, 111, 171).

In order to explain the appearance of "profit", then, McCulloch was left with no way out but to invoke the *ad hoc* "generation" of it in the exchange process.

This means that the commodity is not only exchanged for a greater amount of immediate labour than it itself contains, but for more materialised labour in the other commodities than it itself contains; in other words, profit is "profit upon expropriation" and with this we are back again amongst the Mercantilists. Malthus draws this conclusion. With McCulloch this conclusion follows naturally but with the pretence that this constitutes an elaboration of the Ricardian system. (*TSV*, 111, 171.)

In dealing with "profit" generation, though, McCulloch went further than this when he faced the problem of equal rates of profit on capitals of varying compositions. His explanation of this phenomenon involved resorting to the following ruse which appeared in his "Notes" on the *Wealth of Nations*:

... *labour* may *properly* be defined to be any sort of action or operation whether performed by man, the lower animals, machinery, or natural agents, that tends to bring about any desirable result. (Quoted by Marx, *TSV*, 111, 179.)

This incredible hypothesis was interpreted by Marx to imply that all inputs to production transfer their own value to the output along with some additional value ascribed to their "work" in the process. As Marx saw it, this merely reproduced Say's idea of the "productive services of capital". This, again, was a peculiar *defence* of Ricardo, for he had attacked Say on this matter, arguing that capital as machinery (and natural agents) add to *use-value* but not to *exchange value* (*TSV*, 111, 180).<sup>7</sup> Thus, Marx derided McCulloch's thesis and conclusion:

*After Mac has happily transformed commodities into workers, it goes without saying that these workers also draw wages and that, in addition to the value they possess as "accumulated labour", they must be paid wages for their "operations" or "action". These wages of the commodities are pocketed by the capitalists per procurationem; they are the "wages of accumulated labour" - alias profit. And this [according to McCulloch] is proof that equal profit on equal capitals, whether they set large or small amounts of labour in motion, follows directly from the determination of value by labour time. (*TSV*, 111, 180.)*

In Marx's view, this sort of approach was not in the spirit of Ricardo's work at all. For Ricardo, and most other political economists, labour was strictly a *human activity*. And, as such, it was the only *source* of exchange value. As Marx read the *Principles*, though, Ricardo rose above the others in recognising the *social* nature of aggregate produced value. Ricardo:

... emphasises that labour as *human activity*, even more, as socially determined *human activity*, is the sole source of value. It is precisely through the consistency with which he treats the value of commodities as merely "representing" socially determined labour, that Ricardo differs from the other economists. (TSV, 111, 181.)

This assessment was based upon a passage in Ricardo's *Principles* (quoted, TSV, 111, 181) in which he quoted approvingly from Destutt de Tracy's *Elemens d'ideologie* to the effect that labour was the only source of value and that commodities have value because they represent embodied labour activity.<sup>8</sup> This was in the context of the attack on Say and yet Marx found that McCulloch had taken the idea of non-human "labour" from Say (TSV, 111, 182).

Ricardo's "disciples", then, in Marx's view, did little effectively to realise the *potential* of his *Principles* as an analysis of capitalism. In this, given the inherent ambiguity of the essential core of the work, they failed to support Ricardo against his critics and the "disintegration" of the "School" followed. This process was also actively *promoted* by these critics and we consider Marx's discussion of them in our next Section.

#### 9.4 CRITICS OF RICARDO.

Those who Marx found had most actively and directly contributed to the "disintegration" of Ricardo's influence in political economy were Robert Torrens and Samuel Bailey. Marx depended for his reading of their thought on Torrens' *An Essay on the Production of Wealth; with an Appendix, in which the Principles of Political Economy are applied to the*

*actual Circumstances of this Country* (1821), and on Bailey's *A Critical Dissertation on the Nature, Measures, and Causes of Value; Chiefly in Reference to the Writings of Mr. Ricardo and his Followers. etc.*

Just as Malthus, James Mill and McCulloch did, Torrens attacked the ambiguity in Ricardo's analysis of capitalist "value" and "profit".

Ricardo sought to prove that, apart from certain exceptions, the separation between capital and wage labour does not change anything in the determination of the value of commodities. Basing himself on the exceptions noted by Ricardo, Torrens rejects the law (*TSV*, 111, 74.)

Torrens accepted the fact that when equal capitals had different compositions each would mobilise different quantities of living labour in production. Wrote Torrens in his *Essay*:

*Equal capitals, or, in other words, equal quantities of accumulated labour, will often put in motion different quantities of immediate labour; but neither does this furnish any exception to our general principle. (Quoted by Marx, TSV, 111, 72.)*

As Torrens reasoned it, when capitalist production was concerned, immediate (living) labour inputs were no longer significant (*TSV*, 111, 73). In value determination, it was only accumulated labour, capital, which generated value and its *composition* was rendered irrelevant. Equal capitals were simply posited as enjoying equal rates of return, what Torrens called the "customary rate of profit".

But, as Marx hastened to point out, this left Torrens without any *explanation* for this rate of profit. Marx was, though, able to read a germ of reason in Torrens' analysis which accorded with his own views about the irrelevance of *immediate* surplus value generation for the rate of *profit* enjoyed by a particular capital. In the context of Torrens' analysis, Marx argued the point in the following way, but the added conclusion was inevitable:

*The cost to the capitalist consists in the capital he advances - in the sum of the values he expends on production - not in labour, which he does not perform, and which only costs him what he pays for it. This is a very good reason for the capitalists to calculate and distribute the (social) surplus value amongst themselves according to the size of their capital outlay and not according to the*

quantity of immediate labour which a given capital puts in motion. But it does not explain where the surplus value - which has to be distributed and is distributed in this way - comes from. (*TSV*, 111, 74-5.)

All that Torrens had achieved was a restatement of the appearances that were obvious to any capitalist or observer. He had not resolved the "value" - "profit" issue left by Ricardo and had merely elevated a capitalist *phenomenon* to a "law of the phenomenon" (*TSV*, 111, 71.)

Marx's critique of Bailey was much more substantial than his critique of Torrens. Bailey's work was an explicit critical reaction to Ricardo's theory of value built upon the principle that value could be given no meaning beyond being a relationship between two commodities in the exchange situation. Outside of this relativity, value had no *absolute* status or substance at all. Bailey thus found Ricardo's approach to value unacceptable.

Marx found much to disagree with in Bailey's thought and devoted considerable attention in the context of this critique to rethinking the philosophical conception of value and its explanation. The general result of this was a rejection of Bailey's critique of Ricardo and a reiteration of Ricardo's basically sound thesis on value as far as it went.

Marx's basic stance on value was put most succinctly in his statement that: "The rate at which two commodities exchange does not determine their value, but their value determines the rate at which they exchange" (*TSV*, 111, 132). Thus value was a property of a commodity that was prior to exchange. This was an essential fact of capitalist production which transcended the money manifestation of value.

The relation between the value antecedent to production and the value which results from it - capital as antecedent value is capital in contrast to profit - constitutes the all-embracing and decisive factor in the whole process of capitalist production. It is not only an independent expression of value as in money, but dynamic value, value which maintains itself in a process in which use values pass through the most varied forms. Thus in capital the independent existence of value is raised to a higher power than in money. (*TSV*, 111, 131.)

Marx found that Bailey's interpretation of value did not proceed beyond the appearance immediately manifested in the *phenomenon* of exchange. Of this purely relative view of value Marx stated:

This is how matters *appear directly*. And Bailey clings to this. The most superficial form of exchange value, that is the *quantitative relationship* in which commodities exchange with one another, *constitutes*, according to Bailey, their value. The advance from the surface to the core of the problem is not permitted. (TSV, 111, 139.)

The crucial omission from Bailey's argument was an essential homogeneous base upon which relative values were assessed by the parties to an exchange (TSV, 111, 139-40). Indeed this was the basis of Marx's interpretation of the invariable standard of value concept.

The problem of an "invariable measure of value" was simply a spurious name for the quest for the concept, the nature, of *value* itself, the definition of which could not be another value, and consequently could not be subject to variations as value. This was *labour time, social labour*, as it presents itself specifically in commodity production. A quantity of labour has no value, is not a commodity, but is that which transforms commodities into values, it is their *common substance*; as manifestations of its commodities are *qualitatively equal* and only *quantitatively different*. (TSV, 111, 134-5.)

Bailey's attempt to draw an analogy between relative value and the implied relativity of a distance measure did not impress Marx. He merely turned it into an analogy for his own argument. He asserted that the common "substance" in the distance relationship which made the objects comparable was that each had a spatial position. Without this the distance category had no meaning (TSV, 111, 143 and n).

This aspect of Marx's argument against Bailey was extended in the following passage to encompass the *origin* of this essential homogeneity.

But what is this unity of objects exchanged against each other? This exchange is not a relation which exists between them as natural things. It is likewise not a relation which they bear as natural things to human needs, for it is not the degree of their utility that determines the quantities in which they exchange. What is therefore their identity, which enables them to be exchanged in certain proportions for one another? As what do they become *exchangeable*? (TSV, 111, 144.)

Thus Marx rejected use value as a basis for the formation of exchange value. For Marx the root of the process of exchange lay in capitalist *production*

itself. Bailey did not recognise that the primary existence of a product in capitalism was a *commodity* - not a use value directly, but as a manifestation of exchange value (*TSV*, 111, 144-5).

Bailey's treatment of *money* as a third, mediating commodity, in the exchange relation also came in for some critical scrutiny by Marx. Again, Bailey confused the logical priorities involved. On the basis of Bailey's conception of value, money was a *precondition* for the expression of value, and, moreover, value *became* price simply by virtue of this expression (*TSV*, 111, 147). But, as Marx saw it, money was merely a *consequence* of the need for exchange engendered by capitalist production (*TSV*, 111, 145). Bailey had used the notion that the money unit had a variable value in order to reject the absolute value concept that he found implied by Ricardo's search for the invariable standard of value. Marx accepted this property of the money unit but did not accept Bailey's conclusion. Thus, Marx concluded:

We have the fellow here. We find the values measured, expressed in the *prices*. We can therefore [asserts Bailey] content ourselves with *not* knowing what value is. He confuses the development of the measure of value into money and further the development of money as the standard of price with the discovery of the *concept of value* itself in its development as the immanent measure of commodities in exchange. He is right in thinking that this money need not be a commodity of invariable value; from this he concludes that no separate determination of value independent of the commodity itself is necessary .... But for the value to be represented as price, the value of commodities must have been expressed previously as money. Money is merely the form in which the value of commodities appears in the process of circulation. But how can one express x cotton in y money? This question resolves itself into this - how is it at all possible to express one commodity in another, or how to present commodities as equivalent? Only the elaboration of value, independent of the representation of one commodity in another, provides the answer. (*TSV*, 111, 161-2; cf. 145-6 and 155-6.)

Bailey's critique of Ricardo's thoughts on value was, then, essentially wrongheaded. Bailey had not looked beyond the immediate *appearances* of exchange in formulating the critique and had failed to recognise that Ricardo had been on the right track about value. It was an absolute concept, the existence of which was necessitated by the very nature

of capitalist *production and exchange*.

#### 9.5 MARX AND JOHN STUART MILL.

Marx's critique of John Stuart Mill was unusual in three respects. First, it was undertaken early in "Theories of surplus value", well before Marx had formulated his detailed critique of Ricardo's work. Secondly, it was of very narrow scope given the intellectual output of Mill. Thirdly, it was of poor analytical standard. We shall consider each of these aspects of the critique in turn.

The critical notes on Mill were found in notebooks VII and VIII of the "Critique of Political Economy" series (manuscript pages 319-45). This critique was thus undertaken at rather a premature stage because it depended upon a thorough understanding of Ricardo's thought from which Mill had worked and Marx could not really have possessed this until after the critique of Ricardo which was written in notebooks XI - XIII. It was clear, though, that Marx intended the piece for the section on the decline of the "Ricardian School" for it was cited under that heading in the contents listed on the cover of notebook XIV (*TSV*, I, 38; and see also editorial footnote 63 to *TSV*, I). In editing *Theories of Surplus Value*, Salo Ryazanskaya shifted the piece to its position with the work on Torrens, James Mill and McCulloch, *et.al.* in Part 3 (*TSV*, III, 190 ff).

Marx's critique of John Stuart Mill was of very limited scope relative to the quantity and substance of Mill's intellectual output. In "Theories of surplus value", Marx considered one arithmetic example and a few other passages from one essay, "On Profits and Interest", in the series *Essays on Some Unsettled Questions of Political Economy* published in 1844. This essay was actually written in 1829, very early in Mill's career, and he had occasion to express his own dissatisfaction with it.<sup>9</sup> Marx considered that this essay contained "all that is original in Mr. John

Stuart Mill's writings about political economy" and he rejected any reading of Mill's *magnum opus*, *Principles of Political Economy with some of their Applications to Social Philosophy* (1848) (TSV, 111, 190). Given the scope and historical significance of Mill's writings, of which a bibliophile like Marx would have been aware, this treatment of Mill was unreasonably cursory, to say the least. In his later writings, as evidenced by *Capital*, Marx did make some further references to the work of Mill. But, in all, there was no detailed critique anywhere in Marx's writings which did justice to Mill's contributions.

Such treatment of John Stuart Mill by Marx was considered by Bela Balassa,<sup>10</sup> who, after taking account of all of Marx's references to Mill, found it ironical that the treatment could be so limited. It was Balassa's view that there were strong similarities between the thought of Marx and Mill on several important aspects of political economy. These were especially found in the analysis of the value-price-distribution issue, "Say's Law" and the falling rate of profits hypothesis.

Marx's reading of Mill did not give recognition to Mill's formulation in his *Principles* of the notion that *surplus labour* was the source of profit. Balassa quoted the following passage on this: "The cause of profit is that labour produces more than is required for its support ... We thus see that profit arises, not from the incident of exchange, but from the productive power of labour".<sup>11</sup> This argument bore a strong resemblance to the principle of surplus value posited by Marx, but he never made any record of this fact. Instead, he quite inappropriately pressed the point in "Theories of surplus value" that Mill had persisted with the endeavour to explain profit through exchange. (TSV, 111, 192, 200, 201). The piece from Mill just quoted was quoted again in Volume 1 of *Capital* (K, 1, 483), but Marx dismissed it summarily.

What Balassa failed to do in this context, was to elaborate upon the difference in *raison d'etre* of Marx and Mill in writing on political economy.



This difference, we argue, has some bearing on interpreting the above issue with respect to both writers' use of a labour surplus concept.

Mill was a critic of the *form* and some of the *results* of capitalism. He found it to be a socio-economic order which was correct in principle, but which with some adjustment, could improve the equity of its delivery of benefits to the bulk of the population.<sup>12</sup> In the light of these views, Mill's theory of profit based upon a labour surplus was not designed to highlight any exploitation of labour by capital. He went no further than to argue that distribution was a social discretionary phenomenon and thus amenable to change.

Marx viewed capitalism and its distribution process quite differently. For him, distribution was an objective consequence of capitalist production and he took exception to Mill's attitude.

How absurd it is ... for John Stuart Mill and others to conceive bourgeois forms of production as absolute; but the bourgeois forms of distribution as historically relative, hence transitory .... The form of production is simply the form of distribution seen from a different point of view. The specific features - and therefore also the specific limitation - which set bounds to bourgeois distribution, enter into bourgeois production itself, as a determining factor, which overlaps and dominates production. (TSV, III, 84.)

The origin of profit in surplus labour represented an integration of production and distribution based on exploitation of labour by capital in which social discretion could have little role. Capitalism was beset by immanent contradictions of this kind and was, consequently, doomed by its own hand. It was Marx's *raison d'etre* in political economy to reveal these contradictions and the inevitable role they would play in the demise of capitalism. In this context, the significance of the principle of surplus labour was much more profound than that envisaged by Mill.

Moreover, Mill watered down the principle enunciated above by bringing in the notion of profit as a reward for "abstinence", an idea adumbrated by Nassau Senior in his *An Outline of the Science of Political Economy* (1836). Balassa quoted Marx's recognition of this in the following passage:

"John Stuart Mill ... accepts on the one hand Ricardo's theory of profit and annexes on the other hand Senior's remuneration of 'abstinence'. He is ... at home in absurd contradictions" (*K*, I, 559n).<sup>13</sup> Balassa saw an error in this criticism by Marx, arguing that in Mill's analysis, the exploitation principle of profit was not incompatible with a theory of "abstinence". Balassa found that Mill had synthesised the two theories. In this argument, though, Balassa missed the point of the *raison d'être* discussion above. For Mill, the surplus principle of profit had nothing to do with exploitation as Marx understood it. For Marx, the "abstinence" idea *was* a contradiction to the surplus principle in that it had been posited to *explain*, as well as justify, profit. However, Mill rose above this "vulgar" viewpoint to some extent in that he applied the "abstinence" idea to the argument that only by saving could capital accumulate, and only out of profit could saving occur, and that the motive for accumulation was the expectation of profit. It followed, then, that profit was a necessary condition for "abstinence" in these two senses. A more careful reading of Mill by Marx may have caused him to temper his remark on the use of "abstinence".

It is necessary to add in qualification of this conclusion that Marx did not see saving out of profit as "abstinence" for the profit had been expropriated by exploitation in the first place (*TSV*, III, 421).

An associated idea in the analysis of profit on which Marx and Mill espoused similar thoughts was the "productivity" of capital and labour in profit generation.<sup>14</sup> Both agreed that capital was not productive in this sense. Marx read this in Mill's work and made a note of it in "Theories of surplus value" (*TSV*, III, 236). At the same time, he went even further and gave Mill credit for having seen capital "as a production relation" in the sense that its "productive power" came from its role in mobilising "real productive power", viz. labour (*TSV*, III, 236). Both also agreed that capital as means of production had a role to play in increasing the

productivity of labour in a physical and value sense. Marx's analysis of the interdependence between the rate of surplus value and the organic composition of capital depended upon this point<sup>15</sup> (although it was not always given due consideration in Marx's analysis of the "laws of motion" of capitalism). But, it did not represent an inconsistency on Marx's part as Balassa suggested. It was quite in order to espouse a surplus theory of profit in which the productivity of *labour* could be improved by machinery.

Balassa also accused Marx of having failed to make use of Mill's advances in the analysis of relative price formation. The point was that Mill had formulated a supply function which could have any slope between horizontal and vertical. This gave demand a role in price formation beyond that evident in the "outdated Ricardian formulation" of an infinitely elastic, constant cost supply function.<sup>16</sup>

Now it is true that formally Marx's analysis included only the horizontal supply function case, and demand was only given a role in price formation when markets did not clear. But, it must be stressed that Marx's primary concern was not with the analysis of relative prices. As Balassa himself noted, value theory (broadly considered) had a dual role in economic theory as the basis for relative prices and for distribution. He recorded, as a consequence, that: "In Marx ... the concept of value is geared ... to the theory of class-income distribution, serving as a basis for his theory of exploitation".<sup>17</sup> Balassa then proceeded to obscure this correct argument by his interpretation that the transformation of values to prices of production in *Capital*, Volume III, was designed to reach an explanation of relative prices. What Balassa failed to emphasise was that this analysis was still primarily concerned with the distribution issue of establishing that a uniform general rate of profits was consistent with the labour theory of value.<sup>18</sup> That the relative price results that flowed from this analysis were only a special case would not have concerned Marx greatly in this context. Marx's failure to notice Mill's advances was

not surprising, then.

Balassa's paper also contained some commentary on the treatment of "Say's Law" by Marx and Mill. This theme was taken up and developed further, along with other aspects of capitalism's "laws of motion" in Marx and Mill, by Bernice Shoul.<sup>19</sup> We shall consider Marx's treatment of Say's Law in Chapter 11, Section 11.3 of our study.

The third unusual feature of Marx's critique of John Stuart Mill in "Theories of surplus value" was its relatively poor analytical standard. Although there was a critical element of significance in Marx's treatment of the Mill piece on profit, his analysis was unduly laborious and often convoluted.

We shall deal with this part of Marx's critique in two stages. First, we provide a summary of Mill's argument about profit, the specific concern of which was to demonstrate more generally the correctness of Ricardo's wage rate - profit rate trade-off. Secondly, we consider Marx's interpretation of this argument and provide a summary of the essential message of the critique.

In the analysis of profits in "On Profits, and Interest", Mill considered Ricardo's thesis that the wage rate, the "cost of production" of the commodity subsistence, was inversely related to the rate of profits. He did this in order to "protect this proposition (the most perfect form in which the law of profits seems to have been yet exhibited) against misapprehension".<sup>20</sup> The potential for this misapprehension arose, Mill argued, from an apparent exception to Ricardo's dictum which emerged when the inputs to production included *produced* means of production.

As Mill reasoned it, these produced means of production were valued at their cost of production which included profit. This meant that in considering profit, *defined* (rather than *explained*) by Mill as "the surplus which remains to the capitalist after replacing his capital",<sup>21</sup> the replacement of capital included a payout for both wages and profit to the

"earlier" producer of the means of production. The relationship between wages and profits was now distorted by the possibility that some change in the profit of the producer of the means of production would feed into the profit of the producer of the commodity concerned. This would result in a change in the latter's profit without any change in wage costs.

In order to demonstrate this possibility, Mill devised the following arithmetic example.<sup>22</sup> In agriculture, wheat was assumed to be produced such that its value comprised 1/3 means of production (machinery and seeds), 1/3 wages and 1/3 profits. Thus, 180 quarters of wheat required inputs of means of production and wages each valued at 60 quarters and profit was assumed to be generated at 50 percent on total capital. The 60 quarters of means of production were then argued to have been produced by a labour input which cost 40 quarters and returned a rate of profit also of 50 percent.

The apparent weakness in Ricardo's dictum was then brought to light by supposing that wheat could, by means of "some contrivance", subsequently be produced with labour only. In this situation, the required wage capital was argued to be 100 quarters (as was effectively the case originally) and the output remained at 180 quarters. The effect of this, and with no change in the "value" of labour as Mill perceived it, was to *raise the rate of profit* to 80 percent. Consequently, Mill wrote:

The conclusion, then, cannot be resisted, that Mr. Ricardo's theory is defective: that the rate of profits does *not* exclusively depend upon the value of wages, in his sense, namely, the quantity of labour of which the wages of a labourer are the produce; that it does *not* exclusively depend upon proportional wages, that is, upon the proportion which the labourers collectively receive of the whole produce ....<sup>23</sup>

But, went on Mill, things were not as they appeared at all. "It is remarkable how very slight a modification will suffice to render Mr. Ricardo's doctrine completely true".<sup>24</sup> What had been overlooked in the example was that *the cost of production of wages fell* as a consequence of the new production method. As Mill saw it:

An article ... may be the produce of the same quantity of labour as before, and yet, if any portion of the profits which the last producer has to make good to previous producers can be economised, the cost of production of the article is diminished.<sup>25</sup>

Such a cost of production reduction had taken place in wheat production by virtue of the 20 quarters profit on means of production not being required with the new technique. Thus 100 quarters of capital now produced what 120 quarters had previously. Therefore, the rise in the rate of profit was indeed due to a fall in the cost of production of the wage commodity and Mill concluded:

The variations ... in the rate of profits, and those in the cost of production of wages, go hand in hand, and are inseparable. Mr. Ricardo's principle, that profits cannot rise unless wages fall, is strictly true, if by low wages be meant not merely wages which are the produce of a smaller quantity of labour, but wages which are produced at less cost, reckoning labour and previous profits together .... The only expression of the law of profits, which seems to be correct, is, that they depend upon the cost of production of wages. This must be received as the ultimate principle.<sup>26</sup>

Marx interpreted this endeavour as "how Mill violently attempts to derive Ricardo's law of the *rate of profit* (in inverse proportion to wages) directly from the law of value without distinguishing between *surplus value* and *profit*". (TSV, 111, 236.)

After outlining Mill's argument in much the same way as we have done above (TSV, 111, 190 ff), Marx proceeded to subject it to a most exhaustive and laborious counter analysis. He extended and reformulated the arithmetic presented by Mill, but he never really seemed at ease with what he was doing. While his critique of Mill was, in its essence, a valid one, as we shall demonstrate below, Marx's deliberations did not have the finesse of his later critical analyses. We can surmise that his critical appreciation of Mill would have been more coherently presented had he redrafted the piece after working through the critique of Ricardo's *Principles*.

The basic problem with Ricardo's analysis of the rate of profits determination, as Marx read it, was that he confused the rate of profits with the rate of surplus value. The laws which applied to the latter did not necessarily apply to the former. Especially was this the case with

Ricardo's principle of the inverse relationship between wages and the rate of profits. The trade-off was strictly between wages and the rate of surplus value. (See Section 7.5.3 above.) Marx summarised his position at this stage as:

Thus the rate of surplus value and the rate of profit are two different rates, although profit is only surplus value considered from a particular point of view. It is correct to say with regard to the rate of surplus value that it exclusively depends "upon wages; rising as wages fall, and falling as wages rise" .... Since the rate of profit is the ratio of surplus value to the total amount of capital advanced, it is naturally affected and determined by the fall or rise of surplus value, and hence, by the rise or fall of wages, but in addition to this, the rate of profit includes factors which are independent of it and not directly reducible to it. (*TSV*, 111, 191; cf. 212.)

Now Mill followed Ricardo in effectively identifying surplus value and profit, although he did emphasise much more than Ricardo had done that the explanation of the rate of profits would involve total capital advanced, including wage and non-wage capital. In spite of this latter recognition, though, Mill still argued the rate of profits in rate of surplus value terms. Moreover, Mill did not *formally* distinguish prices of production from values, although he was conscious of the need to argue in terms of the cost of production including profits.

Marx quoted directly the arithmetic example from Mill's essay (*TSV*, 111, 195-6). He found the logic of Mill's argument such that he was prompted to comment that it was "astonishing" that such a piece of analysis had been devised because "its author has also written a book on the science of logic" (*TSV*, 111, 195).

The essential substantive thrust of Marx's interpretation of Mill's example is summarised in the following argument. In the first stage of the example, the assumption was that the rate of surplus value was 100 percent and the rate of profit was 50 percent. Then, in the second stage of the argument, Mill had reasoned that the rate of profit had risen to 80 percent because of a fall in the cost of production of the wage commodity wheat. It was Marx's view that Mill had reasoned incorrectly in that the

rise in the rate of profit had in fact been accompanied by a *rise* in the cost of production of wheat. Thus, Mill had not substantiated Ricardo's principle at all.

Marx reasoned through Mill's arithmetic somewhat differently, keeping to the fore the need to *explain* the *origin* of profit in surplus value as he proceeded. The 180 quarters of wheat in commodity "value" terms produced in the first stage of the example comprised:

c = constant capital = 60 quarters.

v = variable capital = 60 quarters.

s = surplus value = 60 quarters.

Thus:  $(c + v + s) = 180$  quarters, the rate of profit  $r = s/c + v = 0.5$ , and the rate of surplus value  $e = s/v = 1.0$ . Mill had argued that in this stage 60 workers had been employed, so their *value added* was 120 quarters. What of the other 60 quarters of wheat "value"?

In Mill's analysis, the 60 quarters of constant capital comprised a labour input valued at 40 quarters and profit of 20 quarters computed at the rate of 50 percent, the rate which applied in wheat production. It was Marx's view that Mill had argued this incorrectly. Marx questioned the *origin* of the 20 quarters "profit" which had appeared in the production of means of production. There was no surplus *generation* in Mill's analysis and Marx read it as invoking "the old delusion of profit upon alienation" (*TSV*, 111, 200 and 201).

More appropriately, the analysis took the following revised form. In producing the means of production, if only variable capital was involved, then, with  $e = 100$  percent, an advance of 30 quarters would generate 30 quarters of surplus value. Together these would constitute means of production of 60 quarters. In this case,  $e = r = 100$  percent which contrasted with  $r = 50$  percent in wheat production (*TSV*, 111, 198-9). In order to obtain the same relationship between  $e$  and  $r$  in the production of means of production, the required inputs would be  $c = 20$  quarters and



$v = 20$  quarters. Then, with  $e = 100$  percent, the surplus value generated would be 20 quarters. Output "value" would be 60 quarters and the rate of profit would be 50 percent. The significant point was, though, that in both of these approaches, the same labour input was involved. The cost in each case would be 30 quarters, either 30 direct or 20 direct plus 10 indirect respectively (*TSV*, 111, 197-8).

The consequence of this revised reasoning was reflected in what happened to wage costs in the second stage of the analysis when compared with the first stage. In Mill's argument, the 180 quarters of wheat cost 120 quarters in the first stage and only 100 quarters in the second stage. Then, although the same quantity of labour had been involved in the second stage, the 20 quarters of profit in producing the means of production had been saved reducing the cost of labour by one-sixth.<sup>27</sup> The rise in the rate of profit to 80 percent was thus seen to be accompanied by a fall in the cost of wages. Marx reasoned the comparative situation differently. In the first stage, the labour input cost was 90 quarters, each unit of labour being paid one quarter. The cost of wheat was thus one-half of a unit of labour per quarter. In the second stage, with no constant capital, 100 units of labour were required to produce the 180 quarters of wheat and the cost rose to 100 quarters. The cost of wheat was then five-ninths of a unit of labour per quarter. Thus, the rate of profit rise had in fact been accompanied by a *rise* in the wage cost, precisely the opposite conclusion to that devised by Mill (*TSV*, 111, 204) and contrary to Ricardo's principle.

The second stage of the analysis involved a rise in the rate of profit to 80 percent. At the same time, the rate of surplus value had fallen to 80 percent with no constant capital involved in the production of wheat. Two factors were involved in explaining these effects (*TSV*, 111, 211-2). First, in situations where constant capital was employed, it was inevitable that the rate of profit would be less than the rate of surplus value. A

transition to a new technique of production involving no constant capital would tend to raise the rate of profit towards the rate of surplus value. Secondly, the rate of surplus value had fallen because constant capital was no longer used to assist labour. But, this had been compensated for in its effect on the rate of profit by an increase in the number of workers employed. The contribution of these workers to the "value" of production was greater than that of the constant capital they replaced, and, with less capital employed, 100 quarters as against 120 quarters, the ratio of surplus value generated to total capital rose.

Marx's conclusion from his critique of Mill's example was summarised in the following passage.

Mr. Mill, basing himself on his brilliant illustration, advances the general (Ricardian) proposition: "The *only* expression of the law of profits ... is, that they depend on the cost of production of wages".... On the contrary, one should say: The rate of profit (and this is what Mr. Mill is talking about) depends exclusively on the cost of production of wages only in one *single* case. And this is when the rate of surplus value and the rate of profit are *identical*. But this can only occur if the whole of the capital advanced is laid out directly in wages, so that no constant capital ... enters into the product, or that the raw material etc., insofar as it does enter, is not the product of labour and costs nothing - a case which is virtually impossible in capitalist production. *Only* in this case are the variations in the rate of profit identical with the variations in the rate of surplus value, or, what amounts to the same thing, with the variations in the production costs of wages. (*TSV*, 111, 228.)

As we have suggested, in order to reach this conclusion, Marx's analyses were quite a deal more laborious than indicated here. We have, however, summarised what we consider to be the essential, albeit limited, message of his critique of Mill's thought on the wage - rate of profit relationship.

Overall, then, Marx was not impressed by the work of Ricardo's supporters and critics. He had little sympathy for the efforts of the pseudo-disciples to rescue the *Principles* from its analytical difficulties, for in the process, they vulgarised the potential of Ricardo's legacy. The critics were wrong-headed in that they did not come to grips with these difficulties in such a way as to advance the political economy of

capitalism. The results of their critique, Marx found, were negative rather than positive. Our assessments must, though, be qualified by reference to Marx's failure to devote more critical attention to the writings of John Stuart Mill. In Mill's works, the orthodox classical-cum-vulgar stream of thought based upon Ricardo reached its apogee. For some reason Marx resisted a comprehensive study of these works. If he did read them, we can only surmise that he found Mill's analyses difficult to accommodate in the line of *critique* that he was developing.

Other writers who followed Ricardo and who attracted Marx's critical attention in "Theories of surplus value" were outside of the "mainstream" outlined above. We turn to his critique of these writers in our next Chapter.

## NOTES

1. See Thomas Sowell, *Say's Law: An Historical Analysis*, (Princeton University Press, Princeton, N.J., 1972), Chapter 2; and Sowell, "Sismondi: A Neglected Pioneer", *History of Political Economy*, 4:1, Spring 1972.
2. Marx added at this point that: "We shall see the same method employed during the decline of the Ricardian school, i.e. by [James] Mill and McCulloch, who, in order to reason the contradictory phenomena out of existence, seek to bring them into direct conformity with the general law by gabble, by scholastic and absurd definitions and distinctions, with the result, by the way, that the foundation itself vanishes". We take up this issue in Section 9.3 below.
3. *History of Economic Analysis*, p.476.
4. *History of Economic Analysis*, pp.477-8.
5. *A History of Economic Thought*, fourth edition, (Faber, London, 1973), p.300.
6. *Ricardian Economics: A Historical Study*, [1958], (Greenwood Press, Westport, Connecticut, 1976), pp.46-7. In the case of McCulloch, this view is shared by D.P. O'Brien, *J.R. McCulloch: A Study in Classic Economics*, (George Allen and Unwin, London, 1970), p.121.
7. *Principles, Works*, 1, 285 ff.
8. *Principles, Works*, 1, 284-5.
9. See the editorial notes by J.M. Robson in *The Collected Works of John Stuart Mill*, Volume IV, "Essays on Economics and Society", (Routledge and Kegan Paul, London, 1967), p.230 and p.290. (Hereafter referred to as *Collected Works of Mill, IV.*)
10. "Karl Marx and John Stuart Mill", *Weltwirtschaftliches Archiv*, 83, 1959.
11. "Karl Marx and John Stuart Mill", p.149.
12. For an excellent discussion of the comparative *social* positions adopted by Marx and Mill in their writings see: Graeme Duncan, *Marx and Mill: Two Views of Social Conflict and Social Harmony*, (Cambridge University Press, London, 1973). Mill's views on capitalism are summarised at pp.238 ff.
13. Quoted in "Karl Marx and John Stuart Mill", p.149.
14. Balassa, "Karl Marx and John Stuart Mill", p.152.
15. See Paul Sweezy, *The Theory of Capitalist Development*, [1942], (Monthly Review Press, New York, 1968), pp.101-2.
16. Balassa, "Karl Marx and John Stuart Mill", p.153.

17. "Karl Marx and John Stuart Mill", p.148.
18. And this remains the case whether Marx got the analysis right or not. Moreover, Balassa's footnote inference ("Karl Marx and John Stuart Mill", p.148n) that the transformation process is really a non-issue cannot be accepted. See, e.g.: W.J. Baumol, "The Transformation of Values: What Marx "Really" Meant (An Interpretation)", *Journal of Economic Literature*, 12:1, March 1974; and my "Two Notes on Marx and the Transformation Problem".
19. "Similarities in the Work of John Stuart Mill and Karl Marx", *Science and Society*, 29, 1965.
20. *Collected Works of Mill*, IV, p.293.
21. *Collected Works of Mill*, IV, p.290.
22. *Collected Works of Mill*, IV, pp.296-7.
23. *Collected Works of Mill*, IV, p.297, emphasis original.
24. *Collected Works of Mill*, IV, p.297.
25. *Collected Works of Mill*, IV, p.297.
26. *Collected Works of Mill*, IV, p.299.
27. *Collected Works of Mill*, IV, pp.297-8.

## CHAPTER 10

"RADICAL" REACTIONS AND SUBTLE EXTENSIONS TO RICARDO'S  
THEORY OF VALUE AND DISTRIBUTION.

10.1 "RADICAL" OPPOSITION TO CAPITALISM BASED UPON RICARDO'S ANALYSES.

As we intimated in the Introduction to Chapter 9 above (Section 9.1), our concern in the present Chapter is with two further groups of political economists to whom Marx gave his critical attention. These were, first of all, the "radical" critics of capitalism who are the subjects of this first Section, and, secondly, the group of three writers in whose work Marx found some subtle but worthwhile extensions to Ricardo's analyses. This second group is discussed in the next Section.

Marx dealt with those works which polemicised against capitalism from the viewpoint of their analytical origins in political economy, especially as it was presented in Ricardo's *Principles*. He was not concerned with the schemes of reform posited by such writers as Owen, Fourier and St. Simon (*TSV*, 111, 238).

He selected for attention the following writers and their works.

Anonymous, *The Source and Remedy of the National Difficulties, deduced from Principles of Political Economy, in a Letter to Lord John Russell*, (1821).

Piercy Ravenstone, *Thoughts on the Funding System and its Effects*, (1824).

Thomas Hodgskin, *Labour Defended against the Claims of Capital; or, the Unproductiveness of Capital proved ...*, (1825); *Popular Political Economy. Four Lectures delivered at the London Mechanics' Institution*, (1827); *The natural and artificial Right of Property contrasted ...*, (1832).

John Bray, *Labour's Wrongs and Labour's Remedy; or, The Age of Might and the Age of Right*, (1839).

The group of writers which included the above have become known as

the "Ricardian Socialists".<sup>1</sup> Although we have no wish to get into the semantics of this title, we should perhaps note its ambiguity. This group would have been disowned by the orthodox "Ricardians" (however we choose to define the term), but as their work claimed Ricardo's *Principles* as a primary source, the term is appropriate to that extent at least. Their classification as "Socialists" seems to have rested upon their rejection of capitalism through reasoned analysis, an essential part of which was the argument that the removal of private property rights in the means of production would correct the evils revealed by the analysis.

In Lowenthal's view, these writers emerged as a response to the 30 years of economic fluctuations which persisted after the end of the Napoleonic wars in 1815 and to the attendant wrangles in the British Parliament over economic issues which seemed to have very little positive result as far as the working class was concerned. As Lowenthal put it:

Bad trade and unemployment may stimulate among the upper classes a philosophical interest in causes; among the workers it rouses often a revolutionary demand for alleviation .... These circumstances could not fail to produce a generation of radicals. So while the economists were advocating a *laissez-faire* type of reform, there grew up the counter agitation ... for communism and socialistic reorganisation .... The socialistic agitation probably received its inspiration from a small group of writers who have been called the Ricardian socialists.<sup>2</sup>

The *spirit* of this viewpoint accords well with Marx's thoughts on these writers. In Marx's view (*TSV*, III, 258-60), it was Ricardo's *Principles* that manifested the essentials of capitalism as they were understood in this period of the nineteenth century. It was Ricardo who emphasised that value was based upon *labour* inputs to *production* and that this principle was not effectively distorted by the existence of fixed capital and land. Indeed, he was concerned to show that it was not inconsistent with the labour theory of value to include these other inputs and their shares of produced value in the analysis of production and distribution.

The contradiction was, though, that at the same time, political

economy ascribed an esteemed role to *capital* "as the regulator of production, the source of wealth and the aim of production" (*TSV*, 111, 259). This, then, was in stark contrast to the impoverished and purely instrumental status that wage labour assumed when it was supposed to be dominant in wealth formation. As Marx argued:

In this contradiction, political economy merely expressed the essence of capitalist production or, if you like, of wage labour, of labour alienated from itself, which stands confronted by the wealth it has created as alien wealth, by its own productive power as the productive power of its product, by its enrichment as its own impoverishment and by its social power as the power of society. (*TSV*, 111, 259.)<sup>3</sup>

Now as far as the political economists were concerned, this form of the capital-labour relationship was eternal, a *natural* phenomenon which would persist forever. The contradiction embodied in the relationship was not made evident in political economy and Marx found in this the source of the reaction by the opponents of political economy and capitalism that we are to consider in this section.

Since the same real development which provided bourgeois political economy with this striking theoretical expression, unfolded the real contradictions contained in it, especially the contradiction between the growing wealth of the English "nation" and the growing misery of the workers, and since moreover these contradictions are given a *theoretically* compelling if unconscious expression in the Ricardian theory, etc., it was natural for those thinkers who rallied to the side of the proletariat to seize on this contradiction, for which they found the theoretical ground already prepared. (*TSV*, 111, 259-60.)

In spite of working from correct premisses, these writings were found by Marx to have their limitations. Especially did their appreciation of the significance of the capital-labour contradiction not go far enough. The writers remained more or less confined by the capitalist frame of reference in their endeavours to criticise capital. And, what is more, their analyses retained some of the confusions evident in Ricardo's political economy. In Marx's critique, these limitations were arraigned against any advances that these writers may have made.

Perhaps the most striking theme developed by these radicals was that because labour was at the root of all produced value, then the share of



this value not accruing to labour must still be considered to have *originated from labour*. It was surplus *labour* which produced surplus value in the anonymous pamphlet *Source and Remedy* (TSV, 111, 238-9), and in Bray's *Labour's Wrongs* (TSV, 111, 320). Ravenstone had the same idea, but expressed it in terms of surplus *commodities*, the manifested form of surplus labour (TSV, 111, 260).

In *Source and Remedy*, it was argued very precisely that the various "natures" (thus *forms*) of return to the capitalists, rent, "interest of money", and "profits of trade" all originated in *the general form of surplus labour*. The notion of a separable, non-specific category of non-wage income had not been present in the work of Adam Smith or Ricardo. This formulation Marx viewed as a significant advance in political economy, even though the writer had *expressed* the category as "*interest of capital*". Marx ascribed this as a remnant of Ricardo's conflation of surplus value and profit, but he was not specific on the "undesirable contradictions" to which this led in the pamphlet (TSV, 111, 254).

The most significant weakness of *Source and Remedy* in Marx's interpretation, was that its author, in common with the other radicals, did not develop the more far reaching consequences of the recognition of surplus labour as the essence of the capital-labour distribution struggle. His appreciation of the pamphlet was couched in the following terms:

The pamphlet is no theoretical treatise. [It is a] protest against the false reasons given by the economists for the distress and the "national difficulties" of the times. It does not, consequently, make the claim that its conception of surplus value as *surplus labour* carries with it a general criticism of the entire system of economic categories, nor can this be expected of it. The author stands rather on Ricardian ground and is only consistent in stating one of the consequences inherent in the system itself and he advances it in the interests of the working class against capital. (TSV, 111, 254.)

Ravenstone expressed the idea of a surplus in commodity form and related it directly to the power of capital to expropriate some of the results of other people's labour. The existence of the surplus was thus linked to the increasing productive powers of *labour*, but the benefits

accrued to the capitalist who, through ownership of the necessary means of production was able to dominate the worker (*TSV*, 111, 260). In the sense argued, Ravenstone's surplus was effectively a *relative* surplus in Marx's terms because it arose from the development of labour productivity. Ravenstone apparently did not recognise the alternative source of extending the working day to create a larger surplus (*TSV*, 111, 258).

One further feature of Ravenstone's contribution was that it sustained a recognition of capital as an essential component of the economic, technical and cultural well-being of the nation. Without capital, he argued, the only "production" would be of those commodities consumed by workers. (*TSV*, 111, 261-2.) Marx made the point, though, this view was not meant by Ravenstone to be a justification of capital. Rather it revealed that, in general, the employment of capital did not advantage the bulk of the population, although we would argue that the passages quoted by Marx do not reveal this message unambiguously.

In 1847, in the *Poverty of Philosophy*, Marx recognised the work of Bray as being of some significance. It was a "remarkable work" which "proposed the equalitarian application of Ricardian theory" (*CW*, 6, 69). The discussion of 1847 was more extensive than that provided in "Theories of surplus value", where Marx only quoted a series of passages from *Labour's Wrongs* (*TSV*, 111, 319 ff). Just what caused Marx to leave Bray's work without a more detailed critique was not explained.

Most profound in Bray's *Labour's Wrongs* was the expressed formulation of what amounted to the principle of surplus value. The particular passage in which this was most clearly evident is quoted below. Marx had quoted the last part of this passage in the *Poverty of Philosophy* (*CW*, 6, 140), but at that time his analysis showed no recognition of the importance that the argument was to assume in his future work. Bray wrote as follows:

" ... the workmen have given the capitalist the labour of a whole year, in exchange for the value of only half a year - and from this [...] has arisen

the inequality of wealth and power which at present exists around us".

He elaborated on this idea thus:

By the present [...] system, exchanges are not only not mutually beneficial to all parties, as the political economists have asserted, but it is plain [...] that there is, in most transactions between the capitalist and the producer, [...] no exchange whatever ... what is it that the capitalist, whether he be manufacturer or landed proprietor gives [...] for the labour of the working man? The capitalist gives no labour, for he does not work - he gives no capital, for his store of wealth is being perpetually augmented ... the capitalist [...] *cannot* [...] make an exchange with anything that belongs to himself. The whole transaction, therefore, plainly shews that the capitalists and proprietors do no more than give the working man, for his labour of one week, a part of the wealth which they obtained from him the week before! - which just amounts to giving him nothing for something .... (Quoted by Marx, *TSV*, III, 320.)

Marx added no comment to this pregnant passage, possibly because its message was so clearly expressed. Marx had embraced each of the ideas present in his own theory of surplus value - that the capitalist had no value of his own to exchange other than that expropriated from the workers, that the *apparent* exchange between the capitalist and the worker was a deception, and that surplus value was derived from living labour for which the capitalist had made only *part* payment.

In his critique of the writings of Hodgskin, Marx concentrated largely upon Hodgskin's treatment of the nature and role of *capital*. The centre-piece of the critique was *Labour Defended* with the other writings receiving little attention beyond a few quoted passages. Marx found that Hodgskin's critique of capital had its shortcomings and, in so doing, he provided a concise reiteration of his fundamental ideas about capital.

As the full title of *Labour Defended* indicated, Hodgskin's intention was to analyse capital from the premise that it was *unproductive*. Marx argued that this property of capital had two dimensions to be considered. First, in a capitalist economy, it was *labour* which produced exchange value and not capital, although capital mobilised and affected the productivity of labour. Secondly, the assistance which labour received in production from means of production as capital was not dependent upon their being *capital*. Production had an objective, physical input-output sense which

transcended the *social form* engendered by a particular historical stage of evolution. The means of production

... serve in the real labour process because of the relationship which exists between them as *use values* - not as exchange values and still less as capital - and the labour which sets them in motion. Their productivity in the real labour process, or rather the productivity of the labour materialised in them, is due to their nature as objective conditions of real labour and not to their *social existence* as *alienated, independent conditions* which *confront the worker* and are embodied in the capitalist, the *master* over living labour. (TSV, 111, 264.)

Indeed, in the production process *per se*, it was *labour* which dominated - made effective - the means of production. (TSV, 111, 264-5; cf. the further discussion of the issue, 274-5.)

Hodgskin argued at length the need for consistency in the physical relationships of production independently of any capital forms. In the case of "circulating" means of production especially, the *continuity* of production depended upon the co-operation of concurrent labour activities producing inputs and final outputs. As Marx pointed out, there was a sense in which all inputs were *past labour* (TSV, 111, 278), but he also saw the point of Hodgskin's approach.

What appears as the effect of antecedent labour, if one considers the production process of the individual commodity, presents itself at the same time as the effect of coexisting labour, if one considers the *reproduction process* of the commodity, that is, if one considers this production process in its continuous motion and in the entirety of its conditions, and not merely as an isolated action or a limited part of it. There exists not only a cycle comprising various phases, but all the phases of the commodity are simultaneously produced in the various spheres and branches of production. (TSV, 111, 279.)

The significance of this sort of analysis was that it underpinned any understanding of *capitalist* production. The *forms* involved above could not be abstracted from, but they were given *added dimensions* by being subjected to the regime of capital. It was these added dimensions which the capitalists themselves, and political economy to the extent that it took the viewpoint of the capitalist, had failed adequately to perceive or reveal. The *socio-historical relativity* of capitalism had not been emphasised as a consequence (TSV, 111, 265).

Hodgskin had recognised that the significant aspect of capital in capitalist production was its *social* ramifications. In this, Marx contrasted him with the political economists who

... ascribe a false importance to the material factors of labour compared with labour itself in order to have also a *technological* justification for the *specific social form*, i.e., the *capitalist form*, in which the relationship of labour to the conditions of labour is turned upside-down, so that it is not the worker who makes use of the conditions of labour, but the conditions of labour which make use of the worker. *It is for this reason* that Hodgskin asserts on the contrary that this physical factor ... is quite unimportant compared with the living process of production and that, in fact, ... [material] wealth has no value in itself, but only insofar as it is a factor in the living production process. In doing so, he underestimates somewhat the value which the labour of the past has for the labour of the present, but in opposing economic fetishism this is quite alright. (*TSV*, 111, 276.)

More profoundly, though, Hodgskin posited the notion that capital amounted to a *deception* in its immediate appearances and as it was portrayed in political economy's analysis of the capital-labour relationship. As Hodgskin put it: "... capital is a sort of *cabalistic word*, like church or state, or any other of those *general terms* which are invented by those who fleece the rest of mankind to conceal the hand that shears them." (Quoted by Marx, *TSV*, 111, 268.) In its principle and its spirit, Marx agreed with this observation, but he was concerned that Hodgskin had not expressed its significance appropriately.

The *capitalist* as capitalist, is simply the personification of capital, that creation of labour endowed with its own will and personality which stands in opposition to labour. Hodgskin regards this as a pure subjective illusion which conceals the deceit and the interests of the exploiting classes. He does not see that the way of looking at things arises out of the actual relationship itself; the latter is not an expression of the former, but vice versa. (*TSV*, 111, 296.)

This piece had implications for the reaction against capitalism that Marx believed was inevitable. The capital-labour relationship as portrayed by political economy was an illusion. This illusion was not an expression of the actual nature of the exploitative relationship, but rather was the exploitation able to be sustained because of the illusion itself. For Marx it was the illusion which had to be dispelled by the revelations of a

critique of political economy. The situation could not be remedied simply by arguing for the demise of the capitalist, for capital and the capitalist were identical.

## 10.2 SOME FURTHER POLITICAL ECONOMISTS OF HISTORICAL SIGNIFICANCE FOR MARX.

### 10.2.1 PRELIMINARY REMARKS.

In completing the main part of "Theories of surplus value", Marx selected three further political economists of the post-1830 period whom he considered had some merit in the sense that they had formulated ideas which were more or less consistent with Marx's own. His treatment was, though, as always, a *critique*.

The three writers concerned and their works as cited by Marx were as follows:

George Ramsay, *An Essay on the Distribution of Wealth*, (1836).

Antoine-Elisee Cherbuliez, *Richesse on Pauvrete. Exposition des causes et des effets de la distribution actuelle des richesses sociales*, (1841).

Richard Jones, *An Essay on the Distribution of Wealth, and on the Sources of Taxation*, (1831); *An Introductory Lecture on Political Economy, delivered at King's College, London etc.*, (1833); *Textbook of Lectures on the Political Economy of Nations etc.*, (1852).

The three had little in common. The features of their work which Marx chose to emphasise in his critique overlapped more with Ramsay and Cherbuliez, with Jones being selected for a different reason.

Both Ramsay and Cherbuliez had treated capital in a way that corresponded in principle to Marx's dichotomy of constant and variable capital. More than this, they had both posited arguments which flowed from this treatment of capital. Cherbuliez had done some analysis of the significance of capital composition in profit determination while Ramsay had

approached close to the surplus value principle. In contrast, Jones' contribution had been less directly concerned with these categorical issues and more with methodology. Marx found in Jones' work a rare sense of historical processes as they affected political economy. Jones' treatment of rent - which, in itself, Marx argued to be superior to Ricardo's - and of capital accumulation were set in the dynamics of historical change.

#### 10.2.2 RAMSAY.

Ramsay's treatment of capital amounted to a constant-variable dichotomy, although he applied the traditional fixed-circulating terms to the revised definitions. Circulating capital thus included only advances to pay wages and fixed capital included all means of production including raw materials (*TSV*, 111, 326).

Having formulated this dichotomy, Ramsay did utilise its potential to a certain extent in his analysis. In the following passage from Ramsay's *Essay*, the principle of associating the capitalist's surplus with wage capital advances was suggested. Ramsay wrote that

... a circulating capital will always maintain more labour than that formerly bestowed upon itself. Because, could it employ no more than had been previously bestowed upon itself, what advantage could arise to the owner from the use of it as such? (Quoted by Marx, *TSV*, 111, 328.)

Marx responded to this passage with some reservations: "Although Ramsay is very close to the real origin of surplus value, he is nevertheless too bound up in the tradition of the economists not to begin immediately straying again along false paths" (*TSV*, 111, 329).

First of all, Ramsay had argued the *role* of his circulating capital in a rather peculiar manner. He had effectively eliminated its role *as capital* by interpreting it as only a *mediation* between labour and the production process. It was the living labour which the wage capital facilitated that was significant, not the capital itself. For Marx, this

was an error. The ramifications of wage labour and wage advances as capital went beyond "convenience" in material production. Ramsay declared that "wage labour and consequently capital - that is the *social form which the means of reproduction assume on the basis of wage labour* - to be unimportant and due merely to the poverty of the mass of the people" (*TSV*, 111, 328). But, Marx argued, there was no necessity for labour to be *wage labour* or for the means of production to be *capital*. However, given the existence of these forms:

Ramsay's analysis ... does not go far enough to draw the correct conclusions from his premises, from the new definition which he has given to capital in the immediate production process. (*TSV*, 111, 328.)

Ramsay had really not got beyond the analysis of production as a *material* process and this gave him an inadequate view of the capital-labour relationship.

Furthermore, in relating the surplus to wage advances, Marx found Ramsay's argument inappropriately formulated. The idea as Ramsay expressed it was that the labour of 100 men in the production of wage commodities could support 150 men in their labour resulting in a surplus of 50 men's labour being included in the value of the commodities produced. This approach did not, however, make the *origin* of the surplus clear. It was *each* worker's living labour contribution in all sectors of production which must be divided into a paid and an unpaid portion. The aggregate of *paid* living labour, the aggregate value of labour power, must comprise at least the value of wage commodity production, but this missed the point in explaining the surplus in each sector of production. Ramsay just did not penetrate deeply enough into the analytical significance of his idea (*TSV*, 111, 329-30).

Ramsay also realised that he would need to consider the role of fixed capital in value and profit formation. He followed Ricardo in arguing that fixed capital "modifies to a considerable extent the principle that value depends upon quantity of labour". (Quoted by Marx, *TSV*, 111,



330.) Such modification was necessary, he argued, in order to ensure a uniform general rate of profits and it revealed that capital could regulate "value" independently of labour (*TSV*, 111, 331). Ramsay also went further and noted that other factors affected the rate of profits - these were productivity in the industries which produced wage commodities and means of production, and the real (commodity) wage paid to workers (*TSV*, 111, 351). But, given these factors, Ramsay had not formalised the category price of production which was needed fully to explain the general rate of profits. And it was prices of production and not values that were affected by fixed capital in production. Ramsay was so close, though, and Marx summarised the analysis thus:

This false conception of Ramsay's in this case is all the more surprising since, on the one hand, he grasps *the natural basis*, so to speak, of surplus value, and, on the other hand, he affirms with regard to one instance that the *distribution of surplus value* - its equalisation to the general rate of profit - does not increase the surplus value itself. (*TSV*, 111, 331.)

Moreover, in a piece quoted by Marx (*TSV*, 111, 332), Ramsay did recognise that differential price effects in the sectors of production, involved a redistribution of "profit".

Ramsay's confusion was aggravated, however, by his adding the "beneficence of nature" to the surplus generation process. In the following passage from his *Essay*, Ramsay's analysis regressed somewhat:

... profits owe their existence to a law of the material world, whereby the beneficence of nature when aided and directed by the labour and skill of man, gives so ample a return to national industry as to leave a *surplus* of products over and above what is absolutely necessary for replacing in kind the fixed capital consumed, and *for perpetuating the race of labourers employed*. (Quoted by Marx, *TSV*, 111, 331.)

The idea of a labour based surplus was not evident here and Marx questioned the implications of the argument as regards the capital-labour relationship. The existence of the surplus, and thus the perpetuation of "the race of capitalists", depended upon the workers subsisting, i.e. just being "perpetuated". What is more, they were *perpetuated as labourers* in order that the capitalist system could continue. For Marx, there was nothing

*natural* in all of this! (TSV, 111, 331-2.)

In his further deliberations on the category profit, Ramsay divided it into two forms: Net profit or interest, and profit of enterprise or industrial profit (TSV, 111, 353). Profit of enterprise was the return to the *industrial capitalists*, the prime movers in production (TSV, 111, 355). These capitalists were involved in labour themselves (although Marx rejected the idea that striving in competition in order to maximise surplus value should be considered as "labour", (TSV, 111, 356)), the "labour of superintendence" required to organise production. But, the existence of such labour could not be extended into an explanation of profit:

If this assertion of the apologists ... were taken literally tomorrow, and the profit of the industrial capitalist limited to the *wages of management and direction*, then capitalist production, the appropriation of the surplus labour of others and its transformation into capital would come to an end the day after tomorrow. (TSV, 111, 356.)

The best that could be argued consistently with an ongoing capitalist system was that the revenue "profit" would be *modified* by this "labour", often in *inverse* proportion to the size of the capital employed. Small scale capitalist production generated more involvement in superintendence by the capitalist *himself* than did large scale production (TSV, 111, 356-7). Also, Marx argued, such "labour" was indicative of a less than complete capitalist system (TSV, 111, 357).

### 10.2.3 CHERBULIEZ.

As was the case with Ramsay, Cherbuliez also recognised the capital dichotomy between wage advances and means of production advances. He too failed to realise its potential in the analysis of the capital-labour relationship and the generation of profits. Cherbuliez did not find in the dichotomy any clue to the *origin* of surplus value as the basis for profit. He argued that there had to be a difference between produced value and input value, but this did nothing to *explain* profit. This merely

formed a *vulgar definition* of profit (*TSV*, 111, 374). But, at least Cherbuliez had related profit to *production* rather than to exchange.

Cherbuliez's attempt to express profit formation in formal terms did not transcend the tautology of definition as the following sample passage revealed:

Let  $P$  be the aggregate product of a given period of time,  $C$  the capital invested,  $\pi$  the profit,  $r$  the *ratio* of profit to capital (rate),  $c$  the capital used up, then  $P - c = \pi$ ,  $r = \pi/C$ , therefore  $Cr = \pi$ . Therefore  $P - c = Cr$ ; therefore  $r = P - c/C$ . (Quoted by Marx, *TSV*, 111, 374.)

As Marx pointed out, this passage did nothing more than *define* profit and the rate of profit (*TSV*, 111, 375).

There was, though, a little more of substance in Cherbuliez's further analysis of the rate of profits as the following passage indicated:

After the deduction of rent, what remains of the *amount of profit*, ... is divided between the capitalist producers *in proportion to the capital each has invested*, whereas the portion of the product which corresponds to the capital used up and is intended to replace it, is divided in proportion with the capital actually used up. This *dual law of division* comes about as a result of *competition*, which tends to equalise the advantages of the different investments of capital. Finally, this dual law of division determines the respective *values* and *prices* of the different kinds of products. (Quoted by Marx, *TSV*, 111, 376.)

Although informally expressed, the links between production, price formation and the determination of the rate of profits argued in this passage were correct in Marx's view. The weakness remained, though, that value and price were conflated and the logical priority of value was not emphasised. The value-surplus value domain of analysis was not separated clearly from the price of production - profit domain as Marx thought essential. (*TSV*, 111, 377.)

Cherbuliez also revealed an appreciation of the capital-labour relationship which Marx found essentially correct (*TSV*, 111, 377). The workers under capitalism have no option but to sell their "labour" to the capitalist. From this sale, they receive a subsistence wage and, as a consequence, they also renounce any claim on whatever is produced with their labour. They are entitled to receive only what is given to them by

the capitalist. This argument was an integral part of Marx's thought also, but he went further to reveal the illusory nature of the *apparent* exchange between the capitalist and the worker. Cherbuliez did not elaborate upon how it was possible that a part of the labour input was appropriated by the capitalist without being exchanged for anything. This contradicted the law of exchange upon which capitalism was supposed to be founded. In Marx's view, Cherbuliez only sensed that some inconsistency was involved (*TSV*, 111, 377-8).

#### 10.2.4 JONES.

What impressed Marx so much about Jones' work was that it placed the discussion of distribution in its dynamic historical setting. The changing forms over time were emphasised and the explanations were geared to the stage of social evolution (*TSV*, 111, 428 and 430).

Although much of Jones' analysis concerned rent, he was also conscious of the historical relativity of the status of labour and of capital (*TSV*, 111, 399-401). Especially was it not sufficient simply to argue rent as surplus "profit" for this presupposed the dominance of agriculture by capital, a relatively recent phenomenon. In his actual analysis of rent under capitalism, Jones' work was interpreted by Marx to be superior to that of his antecedents.

Jones made it clear that capitalist agriculture only emerged when landed property ceased to dominate production and that this only followed the development of large-scale capitalist production in the towns. "Jones shows that rent in the Ricardian sense only exists in a society the basis of which is the capitalist mode of production" (*TSV*, 111, 402). Rent under capitalism was mediated by capital. In pre-capitalist forms of agricultural production, the labourer was in a direct relationship with the landowner and the surplus was appropriated directly as rent. Once capital

intervened, it was the capitalist who appropriated the surplus as "profit". Out of this a surplus "profit" in effect was paid by the capitalist as rent. Jones had some idea about this surplus "profit" approach but he did not explain *absolute* rent in terms of it as Marx had done. But Jones did show an awareness that under capitalist production, rent was not directly related to wages. The wage-profit division was logically prior to the payment of rent (*TSV*, 111, 403).

Although Jones did not *explain* rent in terms of the surplus "profit", he was aware that the volume of rent was linked to the amount of capital applied to land and to the efficiency of that capital. For Marx, this was one of Jones' merits. Rent was no longer necessarily related to marginal effects.

This is therefore the first point on which Jones is in advance of Ricardo. Once rent exists, it may increase as a result of the mere increase in the amount of capital employed on the land, irrespective of any change either in the relative fertility of the soils, or in the returns yielded by the successive doses of capital employed, or any alteration whatever in the *price* of agricultural produce. (*TSV*, 111, 405-6.)

Thus, Jones had recognised both absolute and differential forms of rent (*TSV*, 111, 403).

In *An Introductory Lecture on Political Economy*, Jones argued in historically relative terms that production required a "labour fund" of some sort. This fund only took the form of *wage capital* in more recent times. Marx found this to be an important aspect of political economy to be developed.

The determinate social form of the worker's labour corresponds to the form which the conditions of labour ... assume in respect of the worker. But the former is in fact merely the objective expression of the latter ... We shall see, therefore, that the different forms of the labour fund correspond to the different ways in which the worker confronts his own conditions of production. The manner in which he appropriates his product (or part of it) depends on his relations to his conditions of production. (*TSV*, 111, 415.)

*The* distinctive thing about capitalism in this context was that the workers' means of subsistence and production faced them as *capital*. In

order for this to be the situation, the workers had to be dispossessed of their conditions of production and this was perpetuated by the fact that under capitalism only the capitalists could save.

In order that ... [the worker's] wages and consequently the labour fund can confront him as alien capital, these conditions of production must have been lost to him and have assumed the shape of alien property .... By losing possession of his conditions of production, and hence, of his labour fund, the labourer also loses the function of accumulating, and every addition he makes to wealth appears in the shape of other people's revenue which must first be "saved" by these people, that is to say, it must not be spent as revenue, if it is to perform the functions of capital and labour fund for the labourer. (*TSV*, 111, 422.)

As Jones was aware, this situation had significant *social* implications as well. This was a distinguishing feature of Jones' work (*TSV*, 111, 424). As a consequence of being *wage* labour, the worker occupied a particular status in the mode of production. But Jones also developed the argument that this socioeconomic situation was transitory. In this discussion, Marx drew a contrast between Ramsay and Jones in order to emphasise the latter's merit.

One can see what a great leap forward there was from Ramsay to Jones. Ramsay regards precisely that function of capital which makes it capital - the advancing of wages - as accidental, due only to the poverty of the people, and irrelevant to the production process as such. In this narrow circumscribed manner, Ramsay *denies* the necessity for the capitalist mode of production. Jones, on the other hand, ... demonstrates that it is precisely this function that makes capital capital and gives rise to the most characteristic features of the capitalist mode of production. He shows how this form occurs only at a certain level of development of the productive forces and that it then creates an entirely new material basis. Consequently, however, his comprehension of the fact that this form "can be superseded" and of the merely transitory historical necessity for this form, is quite different from that of Ramsay and more profound. He by no means regards capitalist relations as eternal. (*TSV*, 111, 428.)

Jones went on to examine the implications of economic change (*TSV*, 111, 430), change which for Marx depended upon the accumulation of capital setting in motion the "laws of motion" of the capitalist economy. To these "laws of motion" we direct our attention in the next three Chapters of our study.

## NOTES

1. See Esther Lowenthal, *The Ricardian Socialists*, [1911], (Kelley, Clifton, N.J., 1972). Lowenthal included in her analysis William Thompson and John Gray who were omitted by Marx, but did not include the Anonymous work nor Ravenstone.
2. *The Ricardian Socialists*, p.13. On the "philosophical interest in causes" and what do do about the problems as viewed by the "upper classes", see: Barry Gordon, *Political Economy in Parliament, 1819-1823*, (MacMillan, London, 1976) and *Economic Doctrine and Tory Liberalism 1824-1830*, (Macmillan, London, forthcoming).
3. Marx very clearly had *not* forgotten the theme of capitalist alienation of labour which had figured so prominently in the *Economic and Philosophic Manuscripts* of 1844. See: *CW*, 3, especially pp.270 ff. For example, on pp.284-5 Marx wrote along similar lines to the above:

It was likewise a great and consistent advance of modern English political economy, that, whilst elevating *labour* to the position of its *sole* principle, it should at the same time expound with complete clarity the *inverse* relation between wages and interest on capital, and the fact that the capitalist could normally *only* gain by pressing down wages and vice versa.

## CHAPTER 11

REPRODUCTION AND CIRCULATION AND THE "LAWS OF MOTION"  
OF CAPITALISM.

## 11.1 INTRODUCTION.

In this Chapter and the next we will be concerned with Marx's development in "Theories of surplus value" of the ideas associated with the historical "motion" of capitalism adumbrated in the *Grundrisse* (see Chapter 5 above). The "Theories of surplus value" manuscripts contained several elaborations on the theme set in the context of Marx's critical history of political economy. Our objective is to provide an exegetical outline of Marx's thought on the "laws of motion" of capitalism immediately prior to his drafting of the main *Capital* manuscripts. These thoughts, we will find, remained without much collective coherence in "Theories of surplus value". The analyses were scattered throughout the manuscripts as would be expected in a roughly chronological history. What we provide is a comprehension of the threads of development of the various component parts of the "laws of motion" analysis. Their integration into a coherent whole is of lesser significance in the present context, although it will become evident that the analytical core which bound all of the parts together was the theory of surplus value.

We identify for separate treatment several component themes in the analysis of capitalist "motion". First, Marx was concerned to analyse the *potential* of capitalism to reproduce itself on a constant or expanding scale. This analysis abstracted from any dynamic impediments to production and circulation with a view to establishing the quantitative and qualitative



requirements for reproduction to proceed smoothly and continuously. In his endeavours to formulate these requirements, Marx devoted considerable critical attention to the *Tableau Economique* devised by Francois Quesnay and developed by the Physiocrats. It was from this critique that the consistent reproduction schema were developed. But, in spite of having investigated the reproduction issue in the *Grundrisse*, Marx still experienced some difficulty in formulating the requirements in the present context. His endeavours are the subject of Section 11.2 in this Chapter.

Secondly, in the *Grundrisse*, Marx had rejected the "Say's Law" idea that no general overproduction of commodities was possible. He now proceeded to a more detailed critique of the principle through the work of those writers who supported it and those who rejected it, albeit for inappropriate reasons. This critique and its implications for the "laws of motion" of capitalism are considered in Section 11.3 of the present Chapter.

Thirdly, Marx had been impressed by the significance that political economy had ascribed to the tendency of the rate of profits to fall. This phenomenon, Marx argued, originated in production due to the dynamics of the organic composition of capital associated with capital accumulation. He had emphasised in the *Grundrisse* that this phenomenon was an integral part of the "motion" of capitalism independently of any realisation problems in circulation. This position was maintained and elaborated upon in "Theories of surplus value". The process of capital accumulation had other implications for capitalism which were epiphenomenal with the falling rate rate of profits. Especially was Marx concerned with the employment and income prospects of workers as the process proceeded. Marx's critico-historical analysis of how political economy had handled these issues is considered in Chapter 12, Section 12.1 and 12.2.

Fourthly, it was Marx's impression that the capitalist system was immanently crisis prone. His predilection was that the system would go on

experiencing fluctuations in economic activity which would become progressively worse as the system developed. The ultimate fate of capitalism would be a revolutionary transition to socialism induced by the effects of the crises upon the ever growing proletariat. Ideas about these developments were adumbrated in the *Grundrisse* and they were interpreted by Marx to be the consequence of the continual endeavours by capital to transcend the barriers to its continuity. He made this clear in "Theories of surplus value" as follows:

Overproduction, the credit system, etc., are means by which capitalist production seeks to break through its own barriers and to produce over and above its own *limits*. Capitalist production, on the one hand, has this driving force; on the other hand, it only tolerates production commensurate with the profitable employment of existing capital. Hence crises arise, which simultaneously drive it onward and beyond [its own limits] and force it to put on seven-league boots, in order to reach a development of the productive forces which could only be achieved very slowly within its own limits. (*TSV*, III, 122.)

In Chapter 13 we assess the extent to which Marx was able to give coherence to these ideas about crises in "Theories of surplus value". As will be made clear, this extent was very limited.

The state in which Marx left his "laws of motion" analysis, even during the drafting of *Capital*, has been conducive to the generation of a large volume of interpretative literature. Most of this literature has dealt with those parts of the analysis about which Marx seemed most uncertain, viz. the consequences of capital accumulation, especially the falling rate of profits, and the causes and consequences of capitalist crises. These interpretations are dealt with in Chapter 12, Section 12.1, below as they provide a backdrop for our study of the critico-historical analyses in which Marx formulated his ideas on these issues. Less interpretative effort has been devoted to those components of capitalist "motion" upon which we focus in the present Chapter because Marx left his ideas about these components more clearly explicated. The main attention has been paid to Marx's treatment of the "Say's Law" principle and its relationship to crises analysis.

The relevant shortcoming of this literature as far as our study is concerned is its general lack of attention to the critico-historical roots of Marx's thought on the various dimensions of the "laws of motion" analysis. There are exceptions to this and we shall give due regard to these in what follows. Our study, though, provides a detailed assessment of the critico-historical setting in which Marx formulated his analysis of capitalist "motion" in all its dimensions and emphasises their common dependence upon the theory of surplus value.

## 11.2 FORMULATION OF THE REPRODUCTION SCHEMA.

Marx's formulation of reproduction depended fundamentally upon the appropriate sectoral division of the macroeconomy according to the pattern of operational interdependencies. Thus Michael Bleaney sets the stage for our discussions in this Section in the following passage:

In the Physiocratic system ... it is natural to divide the economy into agricultural and manufacturing sectors, because the economic role ascribed to each of these sectors by the Physiocrats is fundamentally different. One is the productive sector, the other the unproductive sector. However, once the basic Physiocratic assumptions have been overthrown, this is no longer true.... On the basis of Adam Smith's innovations, the logical division is into a sector producing consumption goods and a sector producing investment goods.... But Smith himself ... does not make this basic division. He attributes only a very minor role to investment goods production, and when describing the main branches of the economy he retains the Physiocratic division of agriculture and manufacturing. Even Ricardo ... fails to recognise the Physiocratic basis of this division and reproduces it as before. Only with Marx is a correct definition of the departments of a capitalist economy finally achieved.<sup>1</sup>

We saw in Chapter 5 above that Marx expressed the required departmental division in the *Grundrisse* and utilised it to outline a basic reproduction scheme. Now it was through the reproduction concept present in its seminal form in the Physiocratic *Tableau Economique* that Marx was ultimately to turn the *Grundrisse* beginnings into a coherent model of reproduction. But, in spite of this, in "Theories of surplus value" Marx's analysis of reproduction began in a different context.

The need to return to the investigation of the reproduction problem was brought to Marx's attention by Adam Smith's handling of the *gross social product* and *net revenue* categories. As Marx put it:

... the real difficulty which occupied Adam Smith's attention and entangled him in all kinds of contradictions ... is this: The whole capital (as value) resolves itself into labour, is nothing but a certain quantity of materialised labour. The paid labour, however, is equal to the wages of the labourers, the unpaid labour is equal to the capitalists' profit. So the whole capital must be resolvable, directly or indirectly, into wages and profit. Or is labour somewhere performed which consists neither of wages nor profit, and merely has the purpose of replacing the values used up in production which are, however, the conditions of reproduction? But who performs this labour, since all labour performed by the labourer is resolvable into two quantities, one which maintains his own power to produce, and the other which forms the profit of capital? (*TSV*, 1, 106.)

In effect, Marx recommenced his analysis of reproduction by considering the *processes* which could be represented as a consistent schema once they had worked themselves out.

Marx was evidently quite uncertain about how best to proceed with his analysis of the issue of constant capital replacement through circulation. He stated *the problem* over and over and his investigations were long and laborious with little definitive result. The essential problem to be resolved was that the total *net revenue* had to be adequate, it seemed, to purchase the *gross social product* in order for reproduction to proceed. As Marx stated at one point:

It is ... impossible for the value of the revenue to cover the value of the total product. But since, apart from the revenue, *no fund exists from which this product sold by producers to (individual) consumers can be paid for*, it is impossible for the value of the total product, minus the value of the revenue, ever to be sold, paid for or (individually) consumed. On the other hand it is necessary for every product to be sold and paid for at its price (on the assumption that price is here equal to value). (*TSV*, 1, 123-4, cf. 108, 112, 113, 114, 115, 133, 135, and 149-50.)

The question was, then, how could the constant capital component of gross product be realised when revenues comprised only newly added labour - wages plus surplus value?

We note here that at this stage Marx was not concerned with *additions* to constant capital, expanded reproduction, but only with simple

reproduction (*TSV*, 1, 107, 114, 135, 230, 252). Indeed, expanded reproduction was initially expressed as an issue to be treated later (*TSV*, 1, 252), but in the present context Marx only mentioned it in passing when considering capital accumulation (*TSV*, 111, 250-1, 380-1).

Marx began his analysis of the present problem by positing linen production for direct, final consumption as a microcosm of production in aggregate. The output value was assumed to comprise  $\frac{2}{3}$  constant capital and  $\frac{1}{3}$  value added, the latter being the source of wage and surplus value revenue. In this simple context, the issue was the *purchase* of the  $\frac{2}{3}$  of the linen produced which represented the constant capital input (*TSV*, 1, 112-3). This sale was essential if the linen producer was to be able to replace the looms and yarn used up in production. The production of these inputs was proceeding at the same time as the production of the linen. But, in itself this could not ensure reproduction without a prior explanation of where the funds were to come from to purchase the  $\frac{2}{3}$  of the linen in question (*TSV*, 1, 115).

Now it was at this point that Marx turned his investigation away from what would ultimately be the appropriate line of argument. Instead of immediately recalling from the *Grundrisse* that the interdependence of the means of production and consumption commodities production sectors was sufficient to provide the conditions for simple reproduction, he proceeded to extend the number of sectors with a view to providing an adequate revenue to purchase the whole of the linen produced (*TSV*, 1, 115 ff). After considerable arithmetical effort, his conclusion was clear that:

It has thus not helped us at all to shift through nearly 800 branches of production the difficulty of the 8 yards [ $\frac{2}{3}$ ] of linen of sphere A ... representing in its product the value of the constant capital. (*TSV*, 1, 122.)

All that he had achieved was to re-present the problem in a more complex way (*TSV*, 1, 133-4).

The correct principle was soon stated, though, and Marx moved into an investigation of its analytical ramifications:

... the constant capital remains equal to itself and replaces itself out of that part of the value which represents the constant capital in the total product. The exchange between various commodities, the series of purchases and sales between different spheres of production, brings about a change in form only in the sense that the constant capitals in the various production spheres mutually replace each other in the proportion in which they were originally contained in them. (*TSV*, 1, 125, cf. 135.)

The analysis to which Marx now proceeded involved the backwards vertical integration structure of linen production. The idea here was appropriate in the sense that the means of production producers' role, represented initially by the yarn and loom makers, was now brought into the analysis. But the precise structure of the simple reproduction schema did not emerge at this point and Marx went on to extend the sectors considered into those producing increasingly primary inputs. Ultimately, sectors were reached in which output was the only required material input to production, i.e. constant capital was replaced in kind. An example of this was flax growing where the seeds were part of the output. Marx realised, though, that in this extension of the analysis he was not solving the problem (*TSV*, 1, 141) and he continued to mull over this approach with little success (*TSV*, 1, 141-50). With the benefit of hindsight, we can see that in all of this Marx still was carrying forward the correct principle. For example, he wrote that:

Between different spheres of production, where the products of each enter into the other as means of production, an exchange in kind takes place too (even though concealed by a series of money transactions) between the constant capital of the one and that of the other. In so far as this is the case, the consumers of the final product which enters into consumption have not got to replace this constant capital, since it has already been replaced. (*TSV*, 1, 149.)

The principle had been posited in the *Grundrisse*, but Marx was now having great difficulty in utilising it to formalise simple reproduction.

Marx returned to the reproduction issue some pages later in the manuscript and again it is clear that the principle of mutual interdependence between sectors and within sectors was to be the basis of a formal solution (*TSV*, 1, 191). What was now evident was that reproduction

involved two forms of exchange. In disposing of consumer commodities, revenue was exchanged for revenue and revenue was exchanged for constant capital in each transaction. In order to close the reproduction loop, it was necessary that constant capital be exchanged for constant capital within the means of production sector (*TSV*, 1, 197).

This view was reiterated when, some further pages later in the manuscript, Marx again took up his analysis of reproduction (*TSV*, 1, 230). He considered first the mutual exchanges within the consumption commodities sector (*TSV*, 1, 231-5). What emerged from this was that a requirement for reproduction would be the production of these commodities to match the qualitative and quantitative pattern of demand. The exchanges here were revenue for revenue and revenue for constant capital. Reproduction then also required that the revenue of the means of production sector be exchanged for revenue and constant capital in the consumption commodities sector. Only then could the complete realisation of consumption commodities value be achieved enabling the producers in this sector to replace their constant capital.

By introducing a two-sector model of the economy, Marx was now able more formally to express the reproduction requirements (*TSV*, 1, 237 ff). The two sectors were A, which produced consumption commodities, and B, which produced means of production as commodities. Sector A produced value which comprised  $\frac{2}{3}$  constant capital and  $\frac{1}{3}$  newly added labour (value added) as revenue. It was thus able to purchase  $\frac{1}{3}$  of its own output. For simple reproduction, the remaining  $\frac{2}{3}$  had to be purchased by revenue generated in sector B, such revenue not being able to be expended on its own non-consumable product. In this way, sector A realised the value of constant capital used up in production. This constant capital could then be replaced by exchange with sector B, with mutual consistency requiring that the value of this exchange be equal to the value of newly added labour in sector B's production.

The essential requirement for reproduction which followed from this analysis was that "the total product [of] A is equal to the total revenue of society" (*TSV*, 1, 239, cf. 244). It was still necessary further to consider the exchanges within sector B where the value of its output which comprised means of production had to be realised. There was no fund of newly added labour value within the sector for such exchanges so the situation was not analogous to that in sector A. Marx's solution to this part of the reproduction analysis required that mutual exchanges of capital for capital take place between producers within sector B (*TSV*, 1, 248-50).

What was missing from the above struggle by Marx to resolve the reproduction issue satisfactorily was a framework for its coherent presentation. He had earlier in the manuscript mentioned in passing that the Physiocratic *Tableau Economique* would have a role to play in formulating a reproduction analysis.

In addition to this analysis of the material elements of which capital consists within the labour-process, the Physiocrats established the forms which capital assumes in circulation (fixed capital, circulating capital, even though as yet they give them other names), and in general the connection between the process of circulation and the reproduction process of capital. We shall come back to this in the chapter on circulation. (*TSV*, 1, 44.)

As it turned out, the analysis of reproduction was not left until Marx dealt with circulation as a separate issue but rather it emerged within "Theories of surplus value" as we have seen already. Marx was very impressed by the *Tableau Economique* as an analytical device and he was moved to refer to it as "an extremely brilliant conception, incontestably the most brilliant for which political economy had up to then been responsible" (*TSV*, 1, 344). He devoted considerable effort to a critical assessment of the device and the result of this was a formal and coherent presentation of the reproduction potential of capitalism.<sup>2</sup>

The main part of Marx's critical assessment of the *Tableau Economique* appeared in Notebook X of the "Theories of surplus value" manuscripts drafted in about April 1862 (*TSV*, 1, 308 ff). It was not until



July 1863, though, that he revealed a complete comprehension of how it could be adapted to a presentation of the reproduction model. This came in a letter to Engels written on 6. July (*MEC*, 174 ff).

The Physiocrats had considered the problem of capital circulation and its integration with the process of production. For Marx, this was an essentially correct basis for understanding the "motion" of capitalism. He summarised his assessment of the *Tableau Economique* in this context in the following passage:

... it was an attempt to portray the whole production process of capital as a *process of reproduction*, with circulation merely as the form of this reproductive process; and the circulation of money only as a phase in the circulation of capital; at the same time to include in this reproductive process the origin of revenue, the exchange between capital and revenue, the relation between reproductive consumption and final consumption; and to include in the circulation of capital the circulation between consumers and producers (in fact between capital and revenue); and finally to present the circulation between the two great divisions of productive labour - raw material production and manufacture - as phases of this reproductive process.... (*TSV*, 1, 343-4.)

The *Tableau Economique*, then, was perceived by Marx as presenting in concise form the essential interdependencies between sectors of *production* in order to ensure *reproduction*. For the Physiocrats, the appropriate division of production was between agriculture (raw materials) and manufacturing, rather than between means of production and consumption commodity production which Marx considered to be a correct simplification of capitalist production. The principle of interdependence remained correct, however. In extending production to reproduction, the Physiocrats had integrated circulation into the analysis, and this circulation was centred around the role of capital. It was Marx's view that this focus upon capital brought the Physiocrats to prominence as the "true fathers of modern political economy" (*TSV*, 1, 44). Indeed, their *raison d'etre* was the advocacy of the capitalisation of agricultural production on a large scale (*TSV*, 1, 64-5). But in analysing the role of capital, they had confined their attention to agricultural capital to the neglect of

manufacturing capital (*TSV*, 1, 379) and had divided capital into its circulation based dichotomy of fixed and circulating to the neglect of the requirements to analyse production (*TSV*, 1, 44).

The Physiocrats' analysis was also a *class analysis*. The sectors of the economy involved in reproduction were designated in class terms as the "productive class" involved in agricultural production, the "landowner class" and the "sterile class" involved in manufacturing. What the Physiocrats had not done was to integrate the *material* side of capital and its role in production with the *social* relations of production. The social class structure followed the dictates of the "Natural Order" and the pattern of distribution and involvement in production was geared purely to that "Order". In summarising his attitude towards this broader perspective of Physiocratic analysis, Marx mixed criticism with praise:

It is not a reproach to the Physiocrats that, like all their successors, they thought of these material forms of existence - such as tools, raw materials etc. - as capital, in isolation from the social conditions in which they appear in capitalist production ... - and thereby made of the capitalist form of production an eternal, natural form of production. For them the bourgeois forms of production necessarily appeared as natural forms. It was their great merit that they conceived these forms as physiological forms of society: as forms arising from the natural necessity of production itself, forms that are independent of anyone's will or of politics, etc. They are material laws, the error is only that the material law of a definite historical social stage is conceived as an abstract law governing equally all forms of society. (*TSV*, 1, 44.)

Thus, in spite of some shortcomings perceived by Marx, the important contribution that he found in the Physiocrats' work was the relating of the social order to the requirements of production.

In his assessment of the *Tableau Economique* itself, Marx largely took the form of the device as given and undertook a clarification of its *processes* without any major criticism emerging. There were weaknesses in the concept and application of capital and in the concept of the surplus involved, but these did not affect the principle of operation of the device which Marx was now endeavouring to grasp.

Marx's interpretation of the *Tableau Economique* in "Theories of

surplus value" centred upon the presentation shown in Table 11.1 (*TSV*, 1, 308).<sup>3</sup> The special feature of this table which gave it added clarity was the inclusion of the *sequential interdependencies* in the format. Marx inserted the letter designations (a)-(b)-(c)-(d), (a')-(b') and (a'')-(b'') in order to illustrate the links in the reproduction process implied by the *Tableau Economique*.<sup>4</sup> Marx worked through an analysis of the links in great detail, but we present only an essential summary of his approach here.

In each case, the letter (a) represented a "starting point of a circulation" (*TSV*, 1, 308) followed by one or more consequent links. (a)-(b) designated the outlay of rent on agricultural consumption commodities by landlords, while (a)-(c) designated their outlay on manufactured consumption commodities. The link (c)-(d) then represented the purchase by the "sterile class" of agricultural consumption commodities. The 2000 million that the farmers had paid in rent returned to them after facilitating the transfer of commodities to consumption. Money was involved here as both a means of payment, in the case of the rent payment by farmers to landlords, and a means of purchase in the sequences which ensued, viz. (a)-(b), (a)-(c) and (c)-(d).

The link (a')-(b') comprised the transfer of manufactured means of production to the farmers to replace those used up in production. Finally, the link (a'')-(b'') represented the completion of the reproduction cycle as the raw material replacement needs of the manufacturing sector were transferred.

The above events proceeded in a strict temporal sequence for the whole circulation process was facilitated by a money supply of only 2000 million. The sequence of exchanges followed from the movement of this money:

1. 2000 million paid by farmers to landlords as rent revenue.
2. (a)-(b) : 1000 million paid by landlords to farmers
- (a)-(c) : 1000 million paid by landlords to "sterile class"

3. (c)-(d) : 1000 million paid by "sterile class" to farmers  
 (a')-(b') : 1000 million paid by farmers to "sterile class"
4. (a'')-(b'') : 1000 million paid by "sterile class" to farmers

Ultimately the money supply returned to the farmers and was the *form* in which the surplus accrued at the end of the reproduction period. It was then paid to the landlords as rent in order to initiate the next cycle.

As is evident from the above analysis, the *Tableau Economique* focussed upon circulation *between* sectors. It did not consider the necessary *intra*-sector exchanges which Marx had recognised and this was a major limitation of the device as a reproduction model. For Marx, then, in formulating his own reproduction schema on the basis of the *Tableau*, this limitation would have to be overcome. Moreover, the *Tableau* would need to be modified in its division of the economy into production sectors and the role of capital and the generation of surplus value would have to be generalised to encompass all sectors.

It was in the letter to Engels of 6. July 1863 that Marx gave the first formal outline of his own reproduction model. He stated explicitly that the table that he had prepared was a substitute for Quesnay's and that it presented the *whole* process of reproduction.

Marx noted in the letter that neither Adam Smith nor Ricardo had considered the aggregate reproduction process. They had focussed only upon the distribution of net revenue as incomes. They had done this even though it was evident to them that in production, material inputs were used up and had to be replaced. In Marx's reproduction table, the revenue distribution and replacement processes were integrated.

The table involved a two-sector economy. One sector produced 'means of subsistence' upon which the wages of labour and non-wage revenues were spent. The other sector produced means of production - explicitly, 'machinery and raw materials'. These were for replacement only, for the model was of simple reproduction. Variable capital was advanced to pay

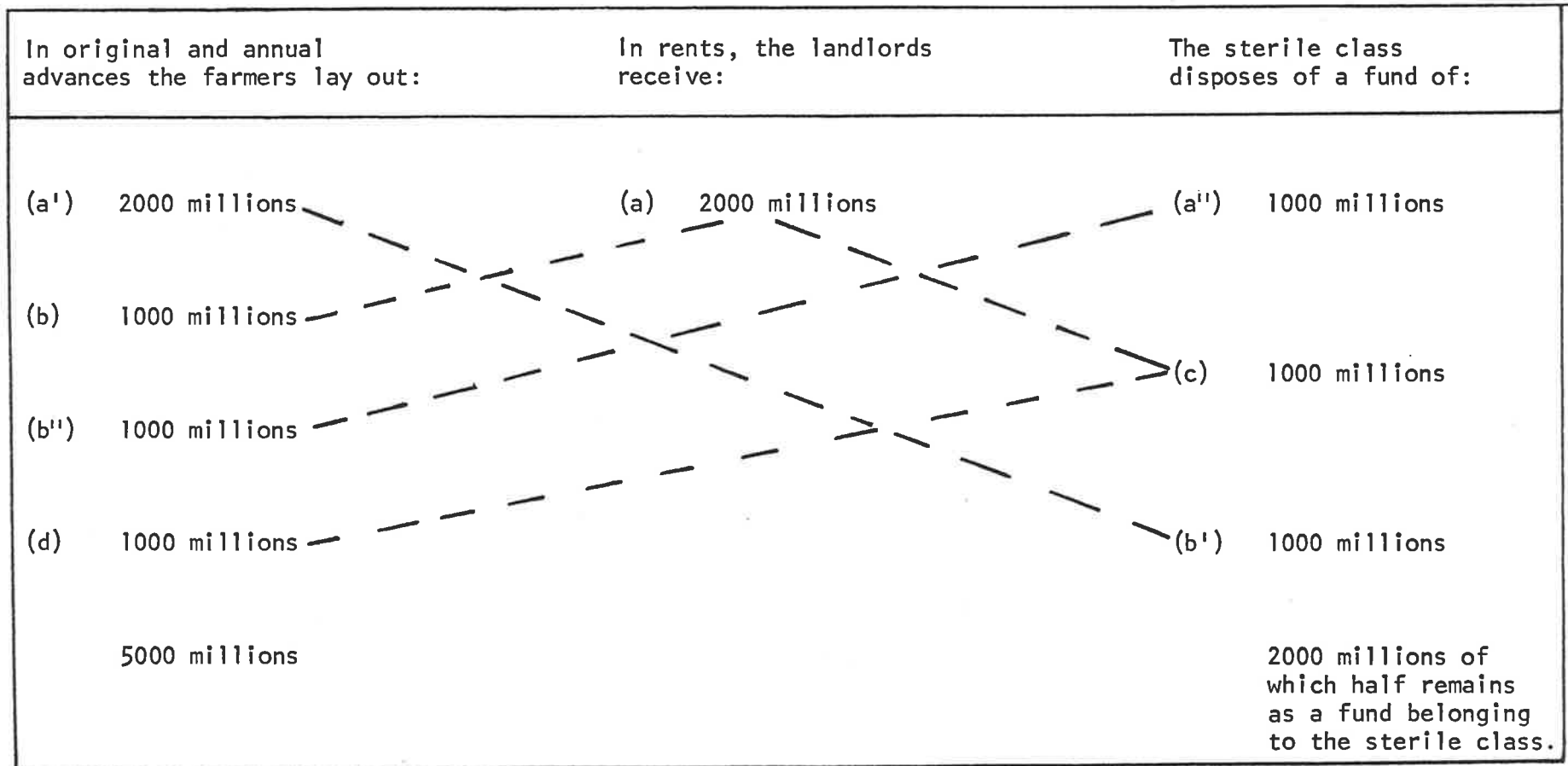


TABLE 11.1

wages and constant capital was advanced to purchase means of production. Some means of production employed, but not used up in the period of production, existed but were not part of the table itself.

In contrast to the *Tableau Economique*, the sectors of production devised by Marx both included agriculture and manufacturing. It was the *functional use of the output* of a sector by which it was now classified. This represented a profound change in the approach to aggregate reproduction analysis. Especially did it enable Marx to make the physical role of capital more explicit in all aspects of production and to emphasise the importance of physical replacement of means of production in perpetuating capitalist production (and, ultimately, the needs for *additional* physical capital in expanded reproduction). The table then made it clear that circulation was an integral means to the achievement of these ends.

The table that Marx devised is shown in Table 11.2. There was a uniform rate of surplus value of 200 percent applied in production and exchanges took place at values expressed in money terms. The latter was made possible by each sector involving capital with a value composition ratio (constant capital to variable capital) of 4, although Marx did not make this point explicitly. This presumption made no allowance for the constant capital advanced but not used up in the production period. It was not accounted for in the table. In order that the value basis of exchange in the table be appropriate, it must additionally be assumed that the *gross* value compositions of capital in each sector were the same.

The analysis was carried out in arithmetical terms, but as Marx pointed out, the quantities had no significance *per se*. The total production of the "subsistence" sector was 700. Of this, 300 was exchanged internally, 100 for wages and 200 for non-wage revenues. These internal flows were represented by the broken lines "upwards" which were the money payouts of wages and non-wage revenues, and the solid lines "downwards" which were the consequent expenditures. Non-wage revenues were

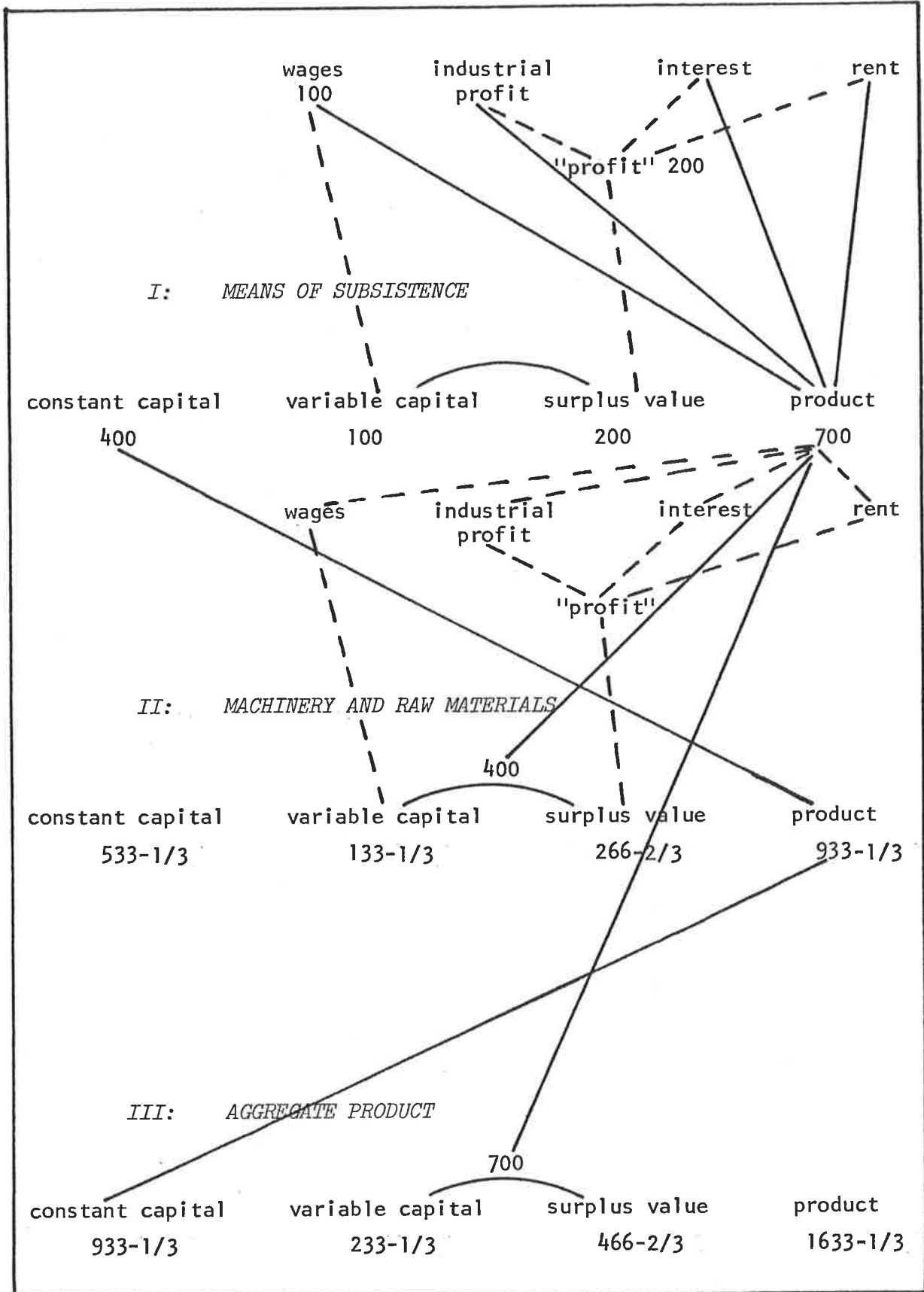


TABLE 11.2

based on surplus value. Its immediate form of payout was as the money category "profit" in the hands of the producing capitalists. This was then allocated by them to the three phenomenal categories "industrial profit", "interest" and "rent".

In order that the sector's used-up constant capital could be replaced, the remaining 400 of its output had to be realised. This came from expenditures by those involved in production in the "machinery and raw materials" sector. The variable capital advanced and the surplus value generated in this sector were chosen by Marx to total 400 for these were the sources of the revenues spent in the inter-sector exchanges concerned. The payout of these revenues were represented by the "upwards" broken lines between the sectors and the consequent expenditures by the solid line "downwards".

The reproduction process was then "closed" by the receipts of 400 in money by the "subsistence" producers being spent on means of production to replace the 400 of constant capital used up. The balance of the means of production produced was exchanged internally to replace used up constant capital in the "machinery and raw materials" sector itself.

The table also included an aggregate level of analysis in which the total constant capital used up in production equalled the total output of the "machinery and raw materials" sector and the total of incomes paid out equalled the total output of the "subsistence" sector.

Marx also presented the essentials of the simple reproduction model in algebraic terms in "Theories of surplus value". This analysis appeared in Notebook XV of the manuscripts and was thus written before the letter to Engels discussed above. What the algebraic form did was to express in general terms what the table version achieved in arithmetical terms. Marx's analysis (*TSV*, 111, 248-9) may be summarised as follows:

Let:     $O$  = output  
           $c$  = constant capital used up  
           $v$  = variable capital  
           $s$  = surplus value



where all of these variables are measured in value terms.

For sector A ("means of subsistence"):

$$O_a = c_a + v_a + s_a$$

For sector B ("machinery and raw materials"):

$$O_b = c_b + v_b + s_b$$

The essential reproduction requirement is that:

$$O_a = (v_a + s_a) + (v_b + s_b)$$

With  $O_a - (v_a + s_a) = c_a$ ,

this requirement becomes:

$$c_a = (v_b + s_b)$$

This last requirement reflects the necessary quantitative interdependence between the sectors that the constant capital used up in the "subsistence" sector is able to be replaced through purchases of "subsistence" commodities by the workers and capitalists in the means of production sector.

The analysis so far has established the abstract potential for the capitalist economy to reproduce itself under particular conditions. The next concern for Marx was to investigate the relationship of these conditions to the realities of capitalist production and circulation. His critico-historical investigation of this issue is the subject of the next Section of our study.

### 11.3 CIRCULATION, REPRODUCTION AND "SAY'S LAW".

The idea that an economic system based on capital could continuously reproduce itself without any circulation problems except in the form of partial and temporary disruptions has acquired the ambiguous name of "Say's Law". As William Baumol has recently established, this complex idea can be interpreted in at least eight different ways, albeit with considerable interdependence.<sup>5</sup> The idea originated implicitly in the work of the

Physiocrats and Adam Smith, although its explication as a basic axiom of political economy was provided by James Mill (1804) and Jean-Baptiste Say (1803).<sup>6</sup> One way or another, its influence pervaded most nineteenth century political economy after these dates. The "Law" was embraced as a truth to be firmly defended or as a fallacy to be rejected. By expressing the "Law" as an "equilibrium condition" the acceptance-rejection decision depends upon exploring the actual conditions that are relevant in the capitalist economy in order to see if they comply with the demands of equilibrium. This was what Marx was doing in moving away from his reproduction schema into the analysis of circulation barriers.<sup>7</sup>

In principle, for the process of reproduction to proceed, the qualitative and quantitative pattern of periodic production of commodities had to match precisely the periodic, *effective* and *exercised* demand pattern. Now from the analysis of the Physiocrats, the predominant concern was with the demand for *consumption commodities*. This limitation was common to nearly all political economy prior to Marx in the nineteenth century in that the analysis of the demand for means of production for replacement and expansion was not formalised. Indeed, beyond the Physiocrats, reproduction was not really an analytical issue. What was at issue was whether adequate effective demand would always be available to purchase the output of consumption commodities. Any overproduction, then, would appear as an excess of these commodities only, so the issue was one of the possibility of *general underconsumption*. The proponents of "Say's Law" rejected this possibility because, except for some short-term disproportionality, the act of production generated income sufficient to purchase what was produced. The opponents of the "Law" prior to Marx, most notably Malthus, Sismondi and Rodbertus, argued that under-consumption was a threat to the continuity of capitalist growth and foresaw bouts of stagnation because of the problem.

For Marx, the analytical formulation of the reproduction schema was

a stepping-off point for his critical analysis of the "laws of motion" of capitalist circulation. He rejected the idea that the required inter- and intra-sector relationships for unimpeded reproduction could appear in reality, except by some accident. This was a consequence of the "anarchy" of capitalist production. However, the issue was more complex than had been intimated by antecedent opponents of "Say's Law" who espoused the underconsumption thesis. Circulation involved all commodities and reproduction required a critical periodic balance between supply and demand patterns if it was to proceed without disruption. In addition, there was the added complication of money to consider. Not only did this facilitate circulation but it also had the potential to impede it by the separation of the acts of sale and purchase, i.e. by acting as a store of value. As we saw in Chapter 5 above, Marx adumbrated these ideas in the *Grundrisse* and developed them further in the 1859 *Critique of Political Economy*.

In this Section, we consider Marx's critique of the analysis of circulation in political economy. We begin by outlining his assessment of the formulation of "Say's Law" by Say and James Mill. The most significant proponent of the "Law" was Ricardo and Marx devoted considerable critical attention to the role that it played in the *Principles*. We discuss this aspect of Marx's critique next. Then we turn our attention to his treatment of the opponents of the "Law". As we have suggested, Marx agreed in principle with their rejection of it, but he still found much to criticise in their approach to the issue.

Marx's treatment of Say in "Theories of surplus value" was brief. He was generally mentioned only in passing with some derisive adjective attached, e.g. "inane", "miserable", "insipid", "tedious". His thesis was similarly derided as "preposterous", "a paltry evasion", "childish babble" and "pitiful claptrap".<sup>8</sup> It was Marx's view that Say "tries to hide his dull superficiality by repeating in absolute general phrases Smith's inconsistencies and blunders" (*TSV*, 1, 103) and that he "separates the

vulgar notions occurring in *Adam Smith's* work and puts them forward in a distinct crystallised form" (*TSV*, 111, 501). We surmise from all of this that Marx did not consider Say's works as worthy of much more than disdain and, as a consequence, decided not to subject them to any sustained critique (although at one stage he did envisage doing so: *TSV*, 11, 493-4).

A crucial limitation that Say had taken over from Adam Smith was the notion that aggregate produced value was all distributed as revenue. That is, no distinction was made between gross and net production in his analysis. As Marx saw it: "It is not true that *the annual product of labour*, of which *the product of the annual labour* forms only one part, consists of revenue" (*TSV*, 1, 150, cf. 103, 221). Say had failed to allow for constant capital replacement in determining aggregate value (*TSV*, 1, 221-2). This was in part due to his emphasis upon the role of supply and demand in formulating the determination of value and distribution (*TSV*, 11, 133, 215, 399-400).

In conceiving of revenue as equal to aggregate produced value, Say was led to the conclusion that there could not be a general demand based failure in commodity circulation. His most serious omission in this conclusion was an appropriate understanding of the role of money in the process. It was Marx's view that Say had effectively resorted to a barter economy model. He thus failed to perceive that money split exchange into two separate acts which comprised circulation and made it more complex to sustain (*TSV*, 11, 493 and 111, 119). As Marx put it, also, "because demand is *limited* by production, it by no means follows that *production is, or was, limited by demand*, and can never exceed the demand ..." (*TSV*, 111, 119). This reflected the "anarchy" of production under capitalism in which the capitalist "produces as if he were fulfilling orders placed by society" (*TSV*, 111, 121). Thus, combining this lack of demand constraint upon production with the separation of sale and purchase due to money's role as a store of value, predisposed capitalist circulation towards a general

failure which Say had not envisaged.

Marx's treatment of James Mill on this issue was more extensive than was the case with Say. Mill was credited with the same bald belief that no general glut of commodities was possible because circulation involved what were effectively barter exchanges (*TSV*, 11, 493). This amounted to a belief in the "metaphysical equilibrium of purchases and sales" in which the C-M-C process was viewed as a necessary unity with no concern for the separation that it implied (*TSV*, 11, 503-4). Moreover, Mill had failed to perceive the commodity as the unity of use value and exchange value. This involved capitalism in the contradiction that demand was based primarily upon use value while production was geared to the maximum production of exchange value. In addition to the *will* to purchase, the demand decision involved the *means* to purchase. Mill had effectively identified these two aspects and then proceeded to assume that supply would match the resultant demand (*TSV*, 111, 100-4).

Much more significant for Marx than the formulation of "Say's Law" by Say and James Mill was the use made of it by Ricardo. Marx found the "Law" to be an important component of the analysis in the *Principles* and he devoted some attention to it in his critique of that work.

Ricardo accepted the "Say's Law" thesis that supply created its own demand and that sale was necessarily followed by purchase. It followed from this that the profitable accumulation of capital could not be impeded by *demand* problems. Marx quoted the following passage from the *Principles* in support of this interpretation (*TSV*, 11, 493-4, quoted 502):

M. Say has ... most satisfactorily shewn, that there is no amount of capital which may not be employed in a country, because *demand is only limited by production*. No man *produces, but with a view to consume or sell, and he never sells, but with an intention to purchase some other commodity*, which may be immediately useful to him, or which may contribute to future production. By producing, then, he necessarily becomes either the consumer of his own goods, or the purchaser and consumer of the goods of some other person. It is not to be supposed that he should, for any length of time, be ill-informed of the commodities which he can most advantageously produce, to attain the object which he has in view,

namely, the *possession of other goods*; and, therefore, it is not probable that he will *continually* produce a commodity for which there is no demand.<sup>9</sup>

From this argument, Marx felt that Ricardo did not understand the nature of capitalist production and circulation. Capitalists only produced commodities to be sold. Once production had taken place, a sale *had* to ensue even if forced on the capitalist at below commodity value. The capitalist did not have the discretion to sell only if a purchase was envisaged as following immediately. His primary and necessary objective was to sell in order to convert his commodity into money as a store of value (*TSV*, 11, 502-3). Ricardo had overlooked this role of money in the present context and thus did not see that it made possible a break in the nexus of supply and demand. Marx's point was that:

At a given moment, the supply of all commodities can be greater than the demand for all commodities, since the demand for the *general commodity*, money, exchange value, is greater than the demand for all particular commodities, in other words, the motive to turn the commodity into money, to realise its exchange value, prevails over the motive to transform the commodity again into use value. (*TSV*, 11, 505.)

The possibility of *partial* overproduction was conceded by Ricardo, Marx noted, but it was argued to be a temporary disequilibrium that would be corrected by capital mobility changing the pattern of production (*TSV*, 11, 504-5, 529). Ricardo rejected the notion that this could turn into a general glut of commodities. Marx quoted from the *Principles* to the effect that general overproduction was ruled out by the collective insatiability of needs (*TSV*, 11, 505-6).<sup>10</sup> This, he thought, represented a gross misinterpretation of the relationship between needs and effective demand in the capitalist economy.

If overproduction could only occur when all the members of a nation had satisfied even their most urgent needs, there could never, in the history of bourgeois society up to now, have been a state of general overproduction or even of partial overproduction.... What after all has overproduction to do with absolute needs? It is only concerned with demand that is backed by ability to pay. It is not a question of absolute overproduction - overproduction as such in relation to the absolute need or the desire to possess commodities. (*TSV*, 11, 506.)

Marx went on:

The word *overproduction* in itself leads to error.... On the contrary, it must be said that on the basis of capitalist production, there is constant *under-production* in this sense. The limits to production are set by the profit of the capitalist and in no way by the needs of the producers. (TSV, 11, 527.)

Thus capitalism allowed the absurdity that even the *producers* of a commodity (the workers) may be in dire need of it and yet it will remain unsold through a lack of *demand*.

From the above discussion, Marx drew the following "very penetrating" conclusion:<sup>11</sup>

All the objections which Ricardo and others raise against over-production etc. rest on the fact that they regard bourgeois production either as a mode of production in which no distinction exists between purchase and sale - direct barter - or as *social* production, implying that society, as if according to a plan, distributes its means of production and productive forces in the degree and measure which is required for the fulfilment of the various social needs, so that each sphere of production receives the *quota* of social capital required to satisfy the corresponding needs. This fiction arises entirely from the inability to grasp the specific form of bourgeois production and this inability in turn arises from the obsession that bourgeois production is production as such.... (TSV, 11, 528-9.)

It was, then, Ricardo's misconceptions about the nature of capitalist production and circulation which led him to perpetuate the false premises of "Say's Law".

Marx considered the work of three opponents of "Say's Law", viz.: Rodbertus, Sismondi and Malthus. Of these, Rodbertus received least attention to his views about overproduction. Marx dealt with Rodbertus at length in the context of the critique of rent theory (TSV, 11, 15 ff) and his main source for this was the third of Rodbertus' published "letters" to von Kirchmann. The second of these "letters" published in *Soziale Briefe an von Kirchmann* dealt with overproduction and crises. For some reason, it was not discussed or cited at all by Marx.<sup>12</sup>

Sismondi was also relatively neglected by Marx on the issue of opposition to "Say's Law". We saw in Chapter 5, Section 5.3 above that Marx briefly considered his work in the *Grundrisse*. There Marx argued

that while Sismondi had grasped that capital generated *immanent* contradictions in its circulation "motion", he had not given sufficient attention to the production process upon which the circulation was based. Recent research has revealed Sismondi to be an outstanding analyst of capitalism in his era.<sup>13</sup> Very little of this contribution was documented by Marx, perhaps, we might speculate, because in general he wished to devote his attention to establishing *differences* between his own thought and that of his antecedents through *critique*. To the extent that Marx found much to agree with in Sismondi's *analyses*, a sustained study of his work would not have been appropriate in the present context. That he intended to return to a study of Sismondi was made explicit at one point and the context was to be "the real movement of capital (competition and credit) which I can only tackle after I have finished this book" (*TSV*, 111, 53).<sup>14</sup> At that stage, we must assume, emphasising differences would have become less important.

In "Theories of surplus value", Marx reiterated that the significant thing about Sismondi's work was its grasp of the immanent contradictions of capital (*TSV*, 111, 55). Sismondi understood that it was in the nature of capital to endeavour to expand itself and that this implied an ever growing periodic mass of commodities to be realised. At the same time, accompanying improvements in labour productivity meant that less labour would be employed thus reducing demand for the commodities produced. For Sismondi, the realisation problems faced by capitalism were systematic rather than accidental (*TSV*, 111, 56, 84, 259).

A difficulty with Sismondi's contribution, in Marx's view, was the suggestion that State action could correct the contradictions of capitalist production. Marx interpreted this to be a resort to past feudal techniques and rejected the idea outright as reflecting a deep-seated misunderstanding of the nature of capitalism and what could be done with it. In Marx's words, Sismondi



... wavers constantly: should the State curb the productive forces to make them adequate to the production relations, or should the production relations be made adequate to the productive forces? He often retreats into the past, ... or he seeks to exorcise the contradictions by a different adjustment of revenue in relation to capital, or of distribution in relation to production, not realising that the relations of distribution are only the relations of production seen from a different aspect. He forcefully *criticises* the contradictions of bourgeois production but does not *understand* them, and consequently does not understand the process whereby they can be resolved. (TSV, 111, 56.)

As with political economy in general then, the limitation of Sismondi's work was its failure to penetrate the appearances in order to grasp the essential nature of capitalism. He had recognised that the system generated contradictions, but he did not realise that even though these were exhibited at the level of appearances they could not be *resolved* at that level.

Marx went on, though, to hint at Sismondi's insights in the following passage:

... at the bottom of his argument is indeed the inkling that *new* forms of the appropriation of wealth must correspond to productive forces and the material and social conditions for the production of wealth which have developed within capitalist society; that the bourgeois forms are only transitory and contradictory forms, in which wealth attains only an antithetical existence and appears everywhere simultaneously as its opposite. It is wealth which always has poverty as its prerequisite and only develops by developing poverty as well. (TSV, 111, 56.)

We may surmise that if a more detailed critique of Sismondi's work had been provided, this would have facilitated a more complete assessment of the critico-historical origins of Marx's analysis of the "laws of motion" of capitalism.

Sismondi's work, Marx argued, had a profound effect upon Malthus. As we saw earlier in our study (Chapter 9, Section 9.2), Marx had a very low opinion of Malthus, especially because he believed that he was a plagiarist. In opposing the "Say's Law" thesis, Malthus continued in this vein, Marx asserted, by copying Sismondi's approach, even if with some subtlety. In this context:

... he does not abandon his innate plagiarism even here. Who at first glance would believe that Malthus's *Principles of Political*

*Economy* is simply the Malthusianised translation of Sismondi's *Nouveaux Principes d'économie politique*? But this is the case. (TSV, 111, 53.)

This was a very strong accusation, and as it did not receive any real substantiation by Marx, we are left to wonder about the nature and extent of the alleged plagiarism. Perhaps, had the manuscripts reached publication in the form Marx envisaged, the evidence would have been elaborated or he might have dropped the charge.

Recent research has, however, rejected these plagiarism allegations. Thomas Sowell's reading is that there were strong overlaps in the writings of Malthus and Sismondi, but that there were also significant differences in their analyses as well. Sowell also makes the point that plagiarism by Malthus is less probable than Marx alleged because many of Malthus' ideas appeared in correspondence with Ricardo prior to the publication of Sismondi's work.<sup>15</sup> Michael Bleaney also reveals some significant differences between the approaches of Malthus and Sismondi to the under-consumption issue.<sup>16</sup> These, too, cast doubt upon the bald plagiarism allegation made by Marx against Malthus. It is evident, then, that even though Marx would not have known about the correspondence between Malthus and Ricardo, a more careful reading of Malthus' published work should have caused Marx to temper his assertions.

We saw in Chapter 9, Section 9.2, above that Marx interpreted Malthus' analysis of value and distribution as a regression to the circularity involved in Adam Smith's arguments. Exchange value was formulated in "labour commanded" terms with its composition comprising the aggregate of revenues paid to those involved in production. Marx's critique of Malthus' treatment of capitalist reproduction and its problems centred upon this fallacious approach to value determination. According to Marx, the key point in Malthus' rejection of "Say's Law" was the need for a growing capitalist economy to be supported by an expanding "unproductive-consumption" demand. This reasoning, which Marx rejected, he ascribed

directly to Malthus' approach to value theory (*TSV*, 111, 40-1).<sup>17</sup>

Marx argued that for Malthus, profit was an addition to cost of production (including wages). This raised the issue of realising the price of the commodity through aggregate demand.

This nominal price increment represents the profit and is a condition of supply, and therefore of the reproduction of the commodity. These elements constitute the *price for the purchaser* as distinct from the *price for the producer*, and the price for the purchaser is the real value of the commodity. The question now arises - how is this price to be realised? Who is to pay it? And from what funds is it to be paid? (*TSV*, 111, 40-1.)

From this approach to profit, it followed that the wage revenue generated in production would not be adequate to purchase the commodities produced at their "purchaser" price. Malthus was quite explicit on this and Marx quoted from the *Principles* to this effect (*TSV*, 111, 57). Marx argued the point as follows:

... as regards the *class of capitalists* ... who produce articles which are directly consumed by the workers - necessaries, we have a case where as a result of the nominal surcharge - the normal profit increment added to the price of the advances - a surplus fund is in fact created for the capitalist, since, in this roundabout way, he gives back to the worker only a part of his product while appropriating a part for himself .... Consequently, it is clear that demand by the workers can never suffice for the realisation of the surplus of the purchase price over and above the cost price.... On the contrary, a profit fund only exists because the worker is unable to buy back his whole product with his wages, and his demand, therefore, does not correspond to the supply. (*TSV*, 111, 42.)

In this passage, two related issues were raised. First, there was the problem of selling all of the consumption commodities produced at a price which covered costs of production plus profit, and secondly, Marx was concerned with the generation of the surplus which appeared as profit. The two issues were related because for this particular sector, Marx found that Malthus had explained the surplus correctly.

[As a result of exchange] with the workers, the first class [of capitalists producing consumption commodities] has established a real surplus fund of necessaries (surplus product) which [as an increment] of capital is in their hands to dispose of, so that they can accumulate part of it and [spend] part of it [as revenue] either on necessaries or on luxuries. Surplus value here, in fact, [represents] surplus labour and surplus product, although this is

achieved [according to Malthus] by the clumsy, roundabout method of a surcharge on prices. (*TSV*, 111, 47.)

This explanation of the surplus could not emerge in sectors of production where non-consumption commodities were produced because no sales could be made directly to workers at prices above the immediate value of their labour power (*TSV*, 111, 42-3).

Marx's critique of Malthus went on to develop further a multi-sector approach to the reproduction problem (*TSV*, 111, 41 ff). This renders the treatment confusing in our view because Malthus did not use such an approach (as Marx realised: *TSV*, 111, 41). His concern was with a one-sector model in which accumulation was taking place in the form of expanding advances to employ labour. The demand with which Malthus was concerned was for a consumer commodity only. The problem then was that once saving was allowed for, there was no guarantee that supply would not exceed demand. There was a limit to the saving ratio out of revenues beyond which a general glut of the commodity would be generated, although Malthus was not very precise about this argument. There was no explicit role for a means of production commodities sector in this analysis and by forcing Malthus' arguments into a reproduction model Marx obscured their particular limitations.<sup>18</sup> It was the case, though, that Malthus' one-sector approach was, in itself, a limitation which deserved to be revealed, especially as it enabled him to by-pass many of the complexities of capitalist reproduction, not the least of which was the role of the surplus. In this sense, Marx's review of these issues was useful, but not as a critique of Malthus.

Be this as it may, Marx's finding about the validity of Malthus' approach to resolving the underconsumption problem was correct. The resolution using "unproductive consumption" was erroneous irrespective of the analytical underpinnings that the problem was given. It was Malthus' argument that the underconsumption issue would be resolved if:

... in addition to exchange by one class of capitalists with its workers and the mutual exchange between the capitalists of the different classes, there also existed a *third class of purchasers* - a *deus ex machina* - a class which paid the nominal value of commodities [price including profit] without itself selling any commodities, ... that is a class which transacted one phase only: M-C, but not M-C-M; [a class] which bought not in order to get its capital back plus a profit, but in order to consume the commodities; a class which bought without selling. (*TSV*, 111, 49-50.)

From this sort of reasoning, Malthus was able to assert that even though the *raison d'etre* of the capitalist was continually to increase production, the problem of overproduction would be eliminated because, as Marx put it, "the *unproductive consumers* not only constitute a gigantic outlet for the products thrown onto the market, but do not themselves throw any commodities onto the market." (*TSV*, 111, 50). Thus they do not constitute any competition for the capitalist in his endeavours to realise an increasing volume of commodities.

But, Marx was aware that such "consumers" had to exercise an *effective demand* which in aggregate covered the "production value" plus the "normal profit surcharge" (*TSV*, 111, 50). This caused him to ask: "where do the annual financial resources of this class come from?" (*TSV*, 111, 51). This was a crucial question. Malthus answered it referring to landowners and their rent share of the annual production which they took no direct part in producing. Any remaining shortfall of demand would be absorbed by State intervention through taxation and support of "a mass of sinecurists in State and Church, of large armies, pensions, tithes for the priests, an impressive national debt, and from time to time, expensive wars. These are the 'remedies'" (*TSV*, 111, 51). Capitalism could survive, Marx concluded from Malthus' argument, only by the grace of "parasites and gluttonous drones" (*TSV*, 111, 52).

Marx did not attack the *logic* of this erroneous approach to the resolution of the overproduction problem.<sup>19</sup> He chose rather to turn it against Malthus in an emotional way as indicating that Malthus' work was

... an apologia for the existing state of affairs in England, for landlordism, "State and Church", pensioners, tax gatherers, tenths, national debt, stock jobbers, beadles, parsons and menial servants ("national expenditure") assailed by the Ricardians as so many useless and superannuated drawbacks of bourgeois production and as nuisances. (*TSV*, 111, 51-2).

In this, Marx agreed with the "Ricardians". It was to Malthus' credit, though, that he did expose the contradictions of capitalism as far as he perceived them. But again, Marx hastened to ascribe ulterior motives to him:

Malthus is interested not in concealing the contradictions of bourgeois production, but on the contrary, in emphasising them, on the one hand, in order to prove that the poverty of the working classes is necessary (as it is, indeed, for this mode of production) and, on the other hand, to demonstrate to the capitalists the necessity for a well-fed Church and State hierarchy in order to create an adequate demand for the commodities they produce. (*TSV*, 111, 57.)

Thus Malthus was accused of polemicising "in the interests of the capitalists against the workers and in the interests of the aristocracy, Church, tax-eaters, toadies, etc., against the capitalists". (*TSV*, 111, 61-2).

Unfortunately, these assertions were not supported by any detailed evidence that Malthus' analyses implied such bias. Marx's accusations remained impressionistic at best.<sup>20</sup>

In this Chapter, we have been concerned with two aspects of the critico-historical origins of Marx's analysis of the "laws of motion" of capitalism. We discussed his formulation of the simple reproduction schema and then outlined his objections to the way in which "Say's Law" had been presented in political economy by both its supporters and opponents. These two aspects are related. The establishment of the reproduction model was based upon the "Say's Law" principle and the rejection of the "Law" followed because Marx's formulation of the model was only intended to provide an analytical device through which the barriers facing capitalist circulation could be exposed.<sup>21</sup> In the next Chapter, we turn to the production based barriers to the operation of capitalism which emerged as consequences of capital accumulation. These, Marx found, had not been

adequately revealed in political economy and had not been explained as originating from the essential nature of capitalism. Chapter 13 then considers Marx's endeavours in "Theories of surplus value" to formalise the capitalist crisis as the confluence of the production and circulation problems previously analysed.

## NOTES

1. *Underconsumption Theories: A History and Critical Analysis*, (Lawrence and Wishart, London, 1976), p.95.
2. My exposition of Marx's treatment of the *Tableau Economique* was improved through reading B.N. Ganguli's erudite paper "Karl Marx on Quesnay", *Indian Economic Review*, 7:2, October 1972.
3. Salo Ryazanskaya, the editor of *Theories of Surplus Value*, points out that this table format was taken from the work of Theodor Schmalz rather than directly from the work of Quesnay or any other Physiocrat. Ryazanskaya goes on to note that this "Digression" on the *Tableau Economique* which opens Notebook X of the manuscripts was probably written in Manchester during Marx's visit there in April 1862. The lack of quotations from Physiocratic works could then be explained by the absence of any access to these works. See *TSV*, 1, 484 n.88.
4. Ryazanskaya summarises the meanings of these links which, he notes, were provided by Marx and did not originate from Schmalz or Quesnay: *TSV*, 1, 484-5 n.89.
5. "Say's (at Least) Eight Laws, or What Say and James Mill May Really Have Meant", *Economica*, 44, May 1977. The complexity of the "Law" is also expressed by Thomas Sowell, *Say's Law: An Historical Analysis*, especially pp.32 ff and 119 ff.
6. More details on the emergence of "Say's Law" are provided in Bleaney, *Underconsumption Theories*, Chapter 5 and in Sowell, *Say's Law*, Chapter 1.
7. Cf. Sowell, *Say's Law*, pp.35-8.
8. Sowell, *Say's Law*, pp.180-1.
9. *Works*, 1, 290, Marx's emphasis.
10. *Works*, 1, 292.
11. Howard and King, *The Political Economy of Marx*, pp.121-2.
12. On Rodbertus' analyses of these issues see Bleaney, *Underconsumption Theories*, Chapter 4.
13. See: Sowell, *Say's Law*, Chapter 2 and his "Sismondi: A Neglected Pioneer", and Bleaney, *Underconsumption Theories*, Chapter 3.
14. Which "book" Marx was referring to here is not clear. We can only assume that he meant the completion of the *part* of Book 1 "On Capital" dealing with capital-in-general, for this was the format of his "Economics" at this stage (late 1862) - see above, Chapter 2, Section 2.2.
15. *Say's Law*, pp.89-90.
16. *Underconsumption Theories*, Chapters 2, 3 and 5.



17. Later writers find a much richer content in Malthus' work on the overproduction problems of capitalism. See J.M. Keynes, "Thomas Robert Malthus" in *Essays in Biography* [1933], *The Collected Writings of John Maynard Keynes*, Volume X, (Macmillan, London, 1972); Sowell, *Say's Law*, Chapters 3 and 4; and Bleaney, *Underconsumption Theories*, Chapters 2 and 5.
18. These limitations are brought out clearly by Michael Bleaney, *Underconsumption Theories*, pp.42 ff and pp.98 ff.
19. Cf. Bleaney, *Underconsumption Theories*, pp.54-5.
20. Cf. John King's argument in "Marx as an Historian of Economic Thought" p.6, that Malthus' motives were attacked by Marx only as a complement to his *analytical* critique of Malthus.
21. Cf. Bernice Shoul, "Karl Marx and Say's Law", *Quarterly Journal of Economics*, 71:4, November 1957, p.614 and p.615.

## CHAPTER 12

CAPITAL ACCUMULATION AND THE "LAWS OF MOTION"  
OF CAPITALISM.

## 12.1 DIMENSIONS OF THE CAPITAL ACCUMULATION PROCESS IN MARX'S THOUGHT.

In his discussion of the capital accumulation process, Marx isolated this component of the "motion" of capitalism. That is to say, he argued the causes and consequences of capital accumulation independently of the circulation process. Circulation was presumed to proceed without impediment while Marx focussed upon production; and we recall that it was production which "underpinned" circulation in his conception of the capitalist economy (*G*, 227).<sup>1</sup>

The capital accumulation aspect of capitalist "motion" was for Marx *multidimensional*. Our concern is with the status of these dimensions in the "Theories of surplus value" preparations for *Capital*. The potential dimensions to be considered in this context are: the incentives for capital accumulation, the qualitative changes in capital composition as accumulation proceeds, the measures of these changes in capital composition in terms of the technical (physical) and value ratios of constant capital to variable capital, the labour productivity effects of the changing composition of capital as these were reflected in the dynamics of the rate of surplus value, the effect of capital accumulation on the rate of profits, the total profit and the profit share in total output, the potential mitigations of the tendency of the rate of profits to fall, capital accumulation as an increase in the use of "machinery" and its effects on the employment and revenue of workers, capital accumulation and the centralisation and concentration of capital, the methodological problem of replacing capital-

in-general by many-capitals in the analysis of capital accumulation and the consequent need to change value measures to price-of-production measures. In "Theories of surplus value", Marx attended to only some of these issues and, as we establish below, there was much left to be done after 1863 before he could claim to have provided a definitive analysis of capital accumulation. As is well known, he never reached that point.

Marx's analysis of capital accumulation, especially as it appeared in *Capital*, has spawned a large volume of interpretative literature. The range of discussion in this literature covers a spectrum of stances from the ultra-critical to the ultra-fundamentalist. Each of the above dimensions has received some attention and while much of the interpretation remains controversial, there has resulted considerable clarification of what Marx's incomplete, and thus confusing and disorganised, analysis of capital accumulation may have meant.

There is in this literature also a varying degree of relativistic consciousness in the methods of interpretation applied. Especially does some of the critical commentary appear to be based upon an unduly sophisticated expectation of analytical achievement by Marx. This weakness of Marx's critics is common to all aspects of his political economy, but nowhere does it become more obvious and potentially misleading than in the context of his analysis of capital accumulation. It is our premise that this sort of problem would be less evident if writers paid more attention to the critico-historical origins of Marx's thought and the analytical standards from which he worked. Moreover, there is a lack of explicit consciousness in this literature that the primary sources upon which the interpretations are based were largely only a result of Marx's *investigations* and were never intended to be the *form of presentation* of the analyses involved. This applied to *Capital*, Volumes II and III as well as to "Theories of surplus value". On this ground, statements of interpretation should be made with some caution, be they critical or

approving.

The following outline of the secondary literature on the various dimensions of Marx's theory of capital accumulation is designed to serve as a backdrop to our subsequent discussion of the critico-historical origins of the theory. While some of the literature has considered these origins, there has been no comprehensive exegetical analysis of the order presented below in Section 12.2 onwards.

There is a general acceptance that Marx posited *the* essential quality of capital as its single-minded purpose of self-valorisation. Reproduction involved the *perpetuation* of the dominance of capital in economic activity, but it was always accepted by Marx as being *necessarily* on an expanding scale.

The most fundamental dimension of the capital accumulation process inherent in the *existence* of capital was the qualitative change in the technology of production which accompanied the process. What this meant in phenomenal terms was that by some assessment process, there was a continuing increase in the ratio of "machinery" to labour employed. This implied that the technology "level" had risen in Marx's view.

Paul Sweezy sees this interpretation by Marx as flowing immediately from his observations of the emerging age of "modern industry" in which the rate of mechanisation was high compared to that in the preceding age of "manufacture".<sup>2</sup> The analytical consequences of this were that the classical political economists had displayed less awareness of the significance of technological change than Marx and encompassed less of its effects in their work. In the age of "manufacture", it was less obvious that far reaching dynamic changes were proceeding to transform capitalism "from a relatively conservative and change-resistant society into a super-dynamic society headed, in Marx's view, for inevitable revolutionary overthrow".<sup>3</sup> Ronald Meek concluded, in agreement with Sweezy, that the most important point in this background to Marx's theory of capital

accumulation was:

The primary stress which Marx laid on changes in the methods of production - which was undoubtedly derived from the characteristics of the particular historical stage in which he was living - introduced a vital change into the theory of economic development. Before Marx, theories of development had been framed in terms of the more or less smooth, more or less uninterrupted accumulation of capital, and its continued and unintermittent interaction with population growth, the progress of diminishing returns in agriculture, etc. With Marx, the dynamic development of industry and the technological change associated with it becomes for the first time a major determining factor. Since technological change is highly unstable, the concept of a smooth and uninterrupted development goes by the board, and the material foundation for a theory of the trade cycle is laid.<sup>4</sup>

This view expressed by Meek leads Michael Howard and John King to posit technological change as the most essential dimension of Marx's analysis of capital accumulation and its implications for the fate of capitalism.<sup>5</sup>

Controversy surrounds Marx's analytical expression or measurement of this observed change in technology. The key category that he used was the *organic composition of capital*. By a change in the organic composition of capital, it is now widely accepted that Marx meant a change in the *value* composition of capital, expressed as the value ratio of constant to variable capital, which reflected a change in the physical technical composition ratio in the same direction. Although Ian Steedman has appropriately expressed concern about just what quantitative meaning can be ascribed to a change in technical composition in this sense,<sup>6</sup> such a physical ratio did underpin Marx's discussions of composition of capital in value terms. In Marx's *definition* of the *organic composition of capital*, it was not possible for changes in the value composition to do anything but track with changes in the technical composition of capital. Several writers have expressed acceptance of this interpretation.<sup>7</sup> Trent Schroyer argues that this way of looking at changing technology originated in Marx's view of the dual nature of capitalist production as a unity of material and value facets. The *organic* composition of capital then reflected this essential contradiction between the use value and exchange value aspects of capital in a single indicator.<sup>8</sup>

But, acceptance that Marx *defined* the organic composition of capital in this way on sound methodological grounds, given his interpretation of the nature of capitalism, does not remove all ambiguity from the way in which he *applied* the category. Marx observed the increasing mechanisation of production and drew from it that as capital accumulated, the organic composition of capital would be rising. In Steedman's view, this requires an act of faith for not only was there no way of meaningfully assessing the changing technical composition of capital in quantitative terms, but also there was no way of observing the composition of capital in *value* terms. Value was an *essential* category and not a *phenomenal* one and it did not manifest itself as an appearance. It was measurable only in principle, important as it was in Marx's thought. The only empirical indication of the changing technology would have been a rising ratio of market-price weighted value of machinery to labour employed. The linking of this to the organic composition of capital was a complex process not considered by Marx at all.<sup>9</sup>

In a rare patch of agreement, neither Paul Sweezy nor David Yaffe are troubled by Steedman's misgivings about the empirics of the organic composition of capital. Sweezy *explicitly* asserts that there exists *empirical* evidence of a rising organic composition of capital in the nineteenth century.<sup>10</sup> How this could have been *observed* in accordance with Marx's definition he does not say. Yaffe's "fundamentalism" allows him to resort to the *logic* of capital in order to justify a rising organic composition. For him it simply follows that this *must* have been the case because in striving to maximise the generation of surplus value in a competitive environment, each capitalist would be required to employ a higher ratio of machinery to labour in order to improve productivity and lower costs. Measuring this seems to be beside the point for Yaffe.<sup>11</sup> Sweezy objects to Yaffe's *approach*, but the outcome for Marxological interpretation is the same.<sup>12</sup>

Both Howard and King and Steedman establish analytically that the value composition of capital is not strictly proportional to the technical composition of capital and that changes in these ratios may be of opposite sign.<sup>13</sup> On this basis, there is no reason beyond an act of faith to assume that the special conditions for a rising organic composition of capital were present beneath the phenomena of the nineteenth century.

Now if we accept the necessity of a rising organic composition of capital in the way that it was argued by Marx, we find that several dynamic consequences follow analytically. The most obvious effect would be a tendency to reduce the *value* rate of profits according to the formula:

$$r = \frac{s/v}{1 + c/v}$$

where:  $r$  = rate of profits

$s$  = surplus value generated

$v$  = variable capital advanced

$c$  = constant capital advanced and used up in production.

A continuous process of capital accumulation induced a rising organic composition of capital ( $c/v$ ) and an underlying *tendency* for the rate of profits to fall, although Marx recognised that the rising organic composition of capital implied a rising productivity of labour and thus a rising rate of surplus value ( $s/v$ ). The *tendency* of the rate of profits to fall was complicated by this additional consideration. Indeed, the stronger assertion is made by some interpreters that the tendency of the rate of profits was indeterminate.<sup>14</sup>

It is possible to argue, as Michael Lebowitz had done, that Marx had good reasons for beginning his analysis of the dynamics of the rate of profits with an assumed constant rate of surplus value. Marx found in his critique of Ricardo's *Principles*, that Ricardo had confused the falling rate of profits with the falling rate of surplus value. In an endeavour

to emphasise this shortcoming, Marx set out to establish that the rate of profits could fall even if the rate of surplus value remained constant. This was simply an abstract, logical step in developing an argument and was not intended to reflect reality in itself.<sup>15</sup> We shall examine this argument in more detail below in the context of our analysis of Marx's critique of Ricardo's theory of capital accumulation (Section 12.2).

Beyond this, though, Marx was aware that the rising rate of surplus value was a necessary accompaniment to the rising organic composition of capital. These two changes were to be treated as integral parts of the effect of capital accumulation on the value rate of profits.<sup>16</sup> The net effect on the rate of profits depended ultimately upon the relative rates of change of the two categories. Marx was in no doubt that the rate of rise of the rate of surplus value would reach a limit dictated by the exigencies of the working day, which delimited the generation of *absolute* surplus value, and the limited opportunities to raise *relative* surplus value through productivity increases. The organic composition of capital was not so constrained and could go on rising without limit. This belief of Marx's, adumbrated in the *Grundrisse* (see above Chapter 5, Section 5.6), has been the subject of some controversy. The argument is rejected by most interpreters as unsound in *the form in which Marx* left it.<sup>17</sup> By contrast, David Yaffe and Mario Cogoy continue to espouse it as truth. Cogoy attempts a "proof" of the argument but this is invalidated by Susan Himmelweit.<sup>18</sup>

A further complicating factor in Marx's falling rate of profits analysis was the effect of capital accumulation and technical change on the *value* of commodities which comprised variable and constant capital. Decreases in the values of these commodities due to increased labour productivity increased the complexity of assessing what happened to the organic composition ratio ( $c/v$ ). The trend in the organic composition of capital was now the combined outcome of the change in technical



composition of capital and the relativities of these value changes. Marx did not give adequate attention to this puzzle.<sup>19</sup> Steedman, however, provides an analysis which establishes *formally* that with both the organic composition of capital and the rate of surplus value rising, it is possible consistently to include a declining value of the constant capital commodities and still generate a falling rate of profits. This remains a *logical* result only and reflects a *potential* for reality rather than reality as such.<sup>20</sup>

An aspect of the falling rate of profits issue not considered by Marx was: which rate of profits falls? Marx's analysis was only conducted in terms of the *value* rate and related to the capital-in-general category. There was a need to recognise that the *phenomenal* rate of profits would be derived on the basis of prices of production generated by the competition between many-capitals of varying organic compositions. The analysis which Marx provided was thus only a starting point at the *essential* level. And given his methodology, this was a *limitation* of his analysis *as far as it went* rather than a *fault*.<sup>21</sup>

It is well recognised in the interpretative literature that the dynamics of the rate of profits was perceived by Marx as a complex issue. So far we have seen that he argued that the *fundamental* tendency of the rate of profits was to fall as the organic composition of capital increased. There were some immediate counter-effects to this tendency. These were a rise in the rate of surplus value, directly due to a rise in labour productivity associated with the organic composition increase and indirectly due to a decrease in the value of wage commodities upon which variable capital advances were spent, and a fall in the value of commodities upon which constant capital advances were spent. Strictly, though, as Ronald Meek points out, these were integrated effects of the capital accumulation process and were not really counters to the tendency.<sup>22</sup> There were, in addition, other counters to the tendency which came about independently of

capital accumulation itself. These were increases in the rate of exploitation of labour other than due to increases in labour productivity, the main factors here being any increase in the working day, an increased use of child labour, and the (probably temporary) depression of the real wage below the value of labour power; relative overpopulation providing an incentive to continue the use of labour intensive methods of production with a consequent decline in the rate of increase of the organic composition of capital; and a cheapening of both variable capital and constant capital commodities resulting from imports from overseas.<sup>23</sup> The net tendency of the rate of profits, then, depended upon the relative effects of all of these influences on it. Ben Fine and Laurence Harris go so far as to retitl Marx's theory as "the law of the tendency of the rate of profit to fall *and* of the tendency for counteracting influences to operate".<sup>24</sup>

All things considered, in order to establish an unequivocal case for an *empirical* falling rate of profits it would require an analysis that went well beyond the level of sophistication that Marx could have been expected to present. Our subsequent study of the critico-historical origins of what he did achieve, though, will reveal that he added important dimensions to the falling rate of profits analysis found in antecedent political economy. It is our view that assessments of Marx's achievements in this issue should keep these findings to the fore.

Marx was also concerned with the effects that capital accumulation and increased mechanisation of production would have on the welfare of workers. More specifically, he analysed the dynamics of the wage share in aggregate income and of employment. It was Marx's general view that in both of these regards the workers would be the victims rather than the beneficiaries of capital accumulation.

This general view was to be understood in a *relative* rather than in an absolute sense. Both absolute aggregate wages and employment would rise with capital accumulation. But, at the same time, Marx argued, the

relative wage share in aggregate income would decline and an increasing proportion of the labour force would be left unemployed in the "reserve army of labour". As Michael Howard and John King point out, though, the latter prognosis depends upon the dynamics of population in relation to the growth of the demand for labour. Marx did not give due attention to this consideration.<sup>25</sup>

In Howard's and King's interpretation, the increasing "reserve army of labour" was a vital component in Marx's analysis of the impact of capital accumulation on workers. It was the growing "reserve army" that supplemented the form of the capital-labour relation of production to keep real wages at the "subsistence" level. For Marx, the combined effects of the increasing "reserve army of labour" and the declining share of wages in aggregate income ensured the "immiserisation" of the working class. However, Howard and King question the *bona fides* of Marx's analysis of this issue. They argue that he did not fully establish that the "reserve army" would increase with capital accumulation and that his analysis of the relative increasing misery of workers omitted many complicating factors that may have mitigated the effect.<sup>26</sup> In spite of this, Ronald Meek's conclusion is still pertinent to any assessment of Marx's interpretation of the increasing misery that would befall workers.

Is there really very much doubt that Marx *did* expect the tendency towards "increasing misery" to manifest itself on the surface of reality, even if only in the sort of general way which we usually describe by the use of such terms as "in the long run", "by and large", "on the average", etc? If he did *not* expect at least this, what was his reason for postulating a tendency towards "increasing misery" at all? What justification would there have been for drawing conclusions from it regarding the inevitability of the socialist revolution.<sup>27</sup>

In this passage, Meek highlights two significant aspects of Marx's analysis of this component of the "laws of motion" of capitalism. First, the analysis was not argued with precision and Marx's conclusions were largely impressionistic. At the same time, though, he believed in them passionately. Secondly, it was the "increasing misery" of the working class

which was to play an important, if unspecified role in the transcendence of capitalism through revolution.

Michael Lebowitz has given considerable attention to this second, concluding moment of the "motion" of capitalism. The experiences of the workers at the hands of capital were based upon the more or less "economic" effects of capital accumulation. The ramifications of these experiences, though, were to be *politico-economic* in a broader sense. The transition to socialism would come about not by an economic "breakdown" of capitalism *per se* but by the active revolution of a growing proletariat suffering increasing misery as a consequence of the capitalist "development" process. The class analysis posited by Marx as an integral part of his political economy would thus become increasingly important as capitalism neared its end. In Lebowitz's words:

What, in Marx's view, made capital finite is that people become *increasingly conscious* that ... [the] barriers to capital as a form for the absolute development of human productive powers are inherent in capital.... Thus it is conscious human beings who recognise that capital is its own barrier, who are the Limit to capital.... That Limit is the proletariat, created, united, and expanded by capital in the course of its development.<sup>28</sup>

From this argument Lebowitz went on to conclude that Marx's writings in themselves fitted into this scenario for the final "motion" of capitalism:

Thus, the writing of *Capital*, the 'popularisation' of Marx's ideas, was a profoundly political act. It was the attempt to bring consciousness of the inherent barriers in capital to the proletariat, the carrying out of Marx's early project - the uniting of philosophy and the proletariat. To the end, Marx remained the philosopher of *praxis*, of human action.<sup>29</sup>

Ronald Meek tempers Lebowitz's argument by posing the question of why it was that Marx's analyses led necessarily to "revolutionary conclusions".

Just because you bring dynamic technological change into your basic model of development, it does not necessarily follow that you thereby see the system as tending inexorably towards overthrow and ruin. Just because your model predicts impoverishment, it does not necessarily follow that you believe that the impoverished workers will eventually rise up and put an end to the system. It would seem that something more must be brought into our picture if we are able to give a Marxian explanation of Marx's revolutionary political conclusions, as distinct from the context of his basic model.<sup>30</sup>

This problem, not noticed by Lebowitz, remains unresolved in spite of its significance.

## 12.2 CRITICAL ORIGINS OF MARX'S ANALYSIS OF CAPITAL ACCUMULATION.

### 12.2.1 PRELIMINARY REMARKS.

The above considerations have provided us with a framework for a detailed exegetical analysis of the critical origins of Marx's thought on the dynamics of capital accumulation. In "Theories of surplus value", he wrote about the various dimensions of the issue in the context of his critique of several antecedent political economists. His main focus was on Ricardo's *Principles*. In works prior to this, Marx did not find capital accumulation a sufficiently definitive analytical issue to warrant critical attention. In this regard, then, Ricardo's *Principles* was again a major contribution to political economy. Beyond this, Marx found, Ricardo's essential message was vulgarised in the interests of portraying capitalism as an harmonious dynamic system. Its immanent instability engendered by capital accumulation and the accompanying socio-political effects of income redistribution and unemployment were given scant attention. The potential for a penetrating critical analysis of capitalism that Marx recognised in the *Principles* was ignored by these writers. The main exceptions to this were Ricardo's contemporary John Barton, the critic of capitalism Thomas Hodgskin, the British political economist George Ramsay and the Swiss political economist Antoine Cherbuliez. Once more, the contributions of John Stuart Mill were neglected by Marx and those of Richard Jones were, in this case, relatively inconsequential.

### 12.2.2 RICARDO'S ANALYSIS OF CAPITAL ACCUMULATION.

We may identify several stages in the development of Marx's critical analysis of Ricardo's ideas on capital accumulation and its effects. Marx began by considering the relations between capital composition dynamics and changes in the rate of profits. This provided him with a basis upon which to consider Ricardo's theory of the falling rate of profits. We recall that for Ricardo, the dynamics of the rate of profits were not directly associated with capital accumulation *per se* in as explicit a way as for Marx. In the *Principles*, changes in income distribution were a response to economic growth in which population and labour force expansion required the production of wage commodities at increasing cost. Such expansion required additional capital for wage advances, but Ricardo did not emphasise this in his analysis of growth. The crucial element in Ricardo's theory was *differential* rent with profit determined as a residual after the payment of subsistence wages. Marx's approach was quite different and his critique of Ricardo enabled him to confirm the direct operational relevance of capital accumulation as the driving element in capitalist "motion". After considering Ricardo's analysis of the falling rate of profits, Marx turned to what little the *Principles* contained on capital accumulation itself. The most significant facet of Ricardo's work on this theme was his recognition of the adverse effects that increased mechanisation of production could have on the welfare of workers. In this, Marx essentially agreed with Ricardo's thesis.

Most fundamentally, Marx argued (*TSV*, 11, 373-6) that Ricardo's analysis of the progress of the capitalist economy through time was constrained by his failure to formulate separately the category surplus value and by his failure to perceive correctly the nature of capital and its role in production and distribution. For Ricardo, the concept of an organic composition of capital had no explicit analytical role. The means of production content of capital accumulation remained implicit and Ricardo's focus in his analysis of growth was only on the expansion of

advances to employ labour. As a consequence of this approach, the "motion" of capitalism centred around the consequences of a rising unit value of "raw produce", the bulk of which was agricultural in origin and destined for consumption as wage commodities.

In the *Principles*, emphasis was given to the falling rate of profits as the main manifestation of the "motion" of capitalism. However, Marx argued that Ricardo had based his theory of this phenomenon incorrectly upon the rising cost of "raw produce" hypothesis. For Marx, it was capital accumulation which was at the root of the falling rate of profits, and he proceeded to provide an outline of the possible effects associated with capital accumulation that could influence the rate of profits. Most significant in this regard was the changing composition of capital which accompanied accumulation.

This changing composition of capital was expressed by Marx in terms of his fundamental dichotomy between constant capital and variable capital. The vital ratio which affected the rate of profits was that of constant to variable capital and he formulated two ways of expressing it: as a *physical* ratio and as a *value* ratio (*TSV*, 11, 380-2). The former would later be called the "technical composition of capital" (*TSV*, 11, 455) and it was a reflection of the "method of production" in the sense of how much labour was required to work the means of production. Any change in this relation implied a change in the "method of production". Marx noted that it was possible for the value composition of capital to change with the technical composition constant due to relative changes in the values of commodities comprising variable and constant capital. This led him to express *implicitly* a definition of organic composition of capital when he considered that a change in technical composition could be exactly offset by an opposite change in the value composition which arose from a change in the commodity values involved. Under such circumstances, he concluded that: "there would be no change at all in the organic composition [of

capital]" (*TSV*, 11, 381). This implied that only changes in technical composition which were reflected in changes in value composition could change the *organic* composition. Marx was not consistent in this, though, for later in the manuscripts he aligned organic composition directly with technical composition. Changes in the values of variable and constant capital commodities no longer affected organic composition so long as the technical composition remained the same (*TSV*, 111, 382 ff). But even at this point he was not clear about this as the following piece demonstrates:

The organic composition [of capital] can be taken to mean the following: Different ratios in which it is necessary *to expend constant capital* [emphasis added] in the different spheres of production in order to absorb the same amount of labour. The *combination of the same amount of labour* with the object of labour requires either that both more raw material and more machinery are used in one case than in the other, or that more of only one of these is used. (*TSV*, 111, 387-8.)

As Marx realised, though, to "*expend*" on constant capital different amounts did not necessarily mean that different *physical* quantities of means of production would be involved.

Our conclusion from this discussion is that much work remained to be done by Marx in clarifying the nature and role of the organic composition of capital category in the capital accumulation induced "motion" of capitalism.

Marx approached Ricardo's theory of the falling rate of profits initially upon its own terms. He provided an extensive elaboration of Ricardo's argument in the form of a long arithmetical example, the results of which were summarised in a tabular presentation (*TSV*, 11, 439 ff). The example used was adapted from that which he had included in his critique of Ricardo's theory of differential rent (see above, Chapter 8, Section 8.2).

It was Marx's interpretation that Ricardo had correctly rejected Adam Smith's idea that any tendency for the rate of profits to fall was induced by competition for the limited investment opportunities that became available as capital accumulated. Competition could only affect the *uniformity* of the rates of profit as between sectors of production and not



the *level* of the overall rate. In order to provide an alternative explanation for the falling rate of profits, Ricardo focussed his attention upon changes in the agricultural sector as capital accumulated and the demand for wage commodities increased. The key component of the argument was the rising value of "raw produce" produced at the margin on no-rent land. Both intensively and extensively, the extending margin was assumed to be ever less productive (*TSV*, 11, 438-9).

Marx rejected Ricardo's theory that the falling rate of profits resulted from the increasing value of "raw produce" for several reasons. Fundamentally, it was based upon a false theory of rent. As we saw in Chapter 8, Section 8.2 above, Marx found Ricardo's differential rent theory to be an inaccurate reflection of the realities of capitalist primary production and too limited in its analytical scope. Now Marx reasoned that the falling rate of profits analysis based upon this theory would necessarily be inadequate too (*TSV*, 11, 439).

At one point, Marx revealed some insight into the *methodological* basis for Ricardo's approach. The use of the no-rent margin enabled Ricardo to separate and emphasise the profit component of the surplus. In this context, Marx quoted the following piece from the *Principles*:

... in all countries, and all times, *profits depend* on the quantity of labour requisite to provide necessaries for the labourers, on that land or with that capital which yields no rent. (*TSV*, 11, 466.)<sup>31</sup>

He took this to imply Ricardo's belief in a determining role for the agricultural rate of profit in the formation of the general rate of profits.

As Marx saw it:

According to this [passage], the profit of the farmer on that land - the worst land, which according to Ricardo pays no rent - regulates the general rate of profit. The reasoning is this: the product of the worst land is sold at its *value* and pays no rent. We see here exactly, therefore, how much surplus value remains for the capitalist after deduction of the value of that part of the product which is merely an equivalent for the worker. And this surplus value is the profit. This is based on the assumption that *cost price* [price of production] and *value* are identical, that this product, because it is sold at its cost price is sold at its value. (*TSV*, 11, 466.)

Two things are of concern to us in this passage and we consider each in turn.

First of all, Marx's interpretation of Ricardo at this point diverged from the generally accepted view, posited by Piero Sraffa, that the direct causal link between the agricultural rate of profit and the general rate of profits was not evident in the *Principles*. As Sraffa puts it in accordance with the *Principles* piece above quoted by Marx:

But while the theory that the profits of the farmer determine all other profits disappears in the *Principles*, the more general proposition that the productivity of labour on land which pays no rent is fundamental in determining general profits continues to occupy a central position.<sup>32</sup>

Marx did, however, sense that the alleged causal link was inappropriate and he rejected it, concluding that:

The only correct point is that on the land which pays a profit but no rent, ... the average rate of profits becomes *apparent*, is tangibly presented, but this does not mean at all that the average profit [rate] is thereby *regulated*; that would be a very different matter. (*TSV*, 11, 467.)

This leads us to the second point of concern, viz. Marx's reason for rejecting Ricardo's alleged argument. The reason centred upon the value-price of production distinction. As Marx read it, Ricardo's direct link between the agricultural marginal rate of profit and the general rate would exist at the level of capital-in-general where the commodity sold at its value. *Effectively*, this implied a "corn" model (one-commodity or single-sector model) of analysis in which Ricardo himself did argue such a direct link. The emergence of more than one sector in the *Principles* meant that embodied labour value had to take over from "corn" as the common input-output measure. In Sraffa's words again:

It was now labour, instead of corn, that appeared on both sides of the account - in modern terms, both as input and output: as a result, the rate of profits was no longer determined by the ratio of the corn produced to the corn used up in production, but instead, by the ratio of the total labour of the country to the labour required to produce the necessaries for that labour.<sup>33</sup>

In making this transition, though, Ricardo faced difficulties which he did not solve adequately. He realised that a varying composition of capital as

between sectors of production or through time would distort the direct embodied labour value measure of aggregate production. His *empirical* pseudo-solution in which the *quantitative* significance of the distortion was argued to be slight did not overcome this difficulty. The requirement was, unbeknown to Ricardo, for a modified category of value, the price of production, through which a uniform general rate of profits appeared in the multi-sector model. In such an analysis, it was, Marx argued, the *industrial* rate of profit which was dominant. *Historically* that was so because capitalist production dominated in industry before doing so in agriculture. *Theoretically* it was so because, in Marx's analysis, no-rent land involved production realised at a *cost-price* in the *market* which was *below* its *individual (direct) value*. The positive *absolute* rent (individual value minus cost price) was offset by the negative and equal *differential* rent (market value minus individual value) (TSV, 11, 294-5). The rate of profits that applied in forming this cost-price was the dominant "rate of profit of the *non-agricultural capital*, into whose determination the price of corn naturally enters as well, however far removed the latter may be from being its sole determinant" (TSV, 11, 466-7).

Moreover, an integral part of Ricardo's difficulty as perceived by Marx was that his rate of profits determination was effectively confined to a rate of surplus value determination. This is indeed the implication of Sraffa's conclusion just quoted where the rate of profits was determined by the ratio of input labour to the labour value of the necessaries required to support the living labour involved. The denominator of this expression was *variable* capital only. This was fundamentally what led Ricardo into the false conception that it was solely the rising value of variable capital commodities that caused the falling rate of profits (TSV, 11, 438-9). By contrast, for Marx:

The rate of profit falls, although the rate of surplus value remains the same or rises, because the proportion of variable capital to constant capital decreases with the development of the productive

power of labour. The rate of profit thus falls, not because labour becomes less productive, but because it becomes more productive. Not because the worker is less exploited, but because he is more exploited, whether the absolute surplus time grows or, when the state prevents this, the relative surplus time grows, for capitalist production is inseparable from falling relative value of labour. (*TSV*, 11, 439.)

The falling rate of profits could, and most probably would, be accompanied by a *rising* rate of surplus value. Ricardo had not considered this in his analysis proper, although he was *aware* of the increasing mechanisation of production as capital accumulated and its reflection in the *relative* demand for labour.

Marx elaborated upon Ricardo's analysis of the dynamics of differential rent and the rate of profits in such a way as to explicate the role of capital composition and the surplus value-profit distinction in explaining the distributional effects of economic growth. The model elaborated involved the marginal extension of production to progressively less fertile land giving rise to a "layering" of productivity in agriculture as growth proceeded. Each marginal extension involved a 100 value unit addition to the capital stock employed on the land. The total capital employed grew in five stages from 100 to 500 units.

In order to conform to the principles of Ricardo's analysis, the extensions of cultivation in Marx's approach allowed for an increase in the *total* labour employed, but this comprised less labour per 100 units of capital due to the increasing unit value of labour power. This effect was reflected in a *falling* organic composition of capital for each and every 100 units of capital employed in successive periods as the margin was extended. There was, then, in each period, a uniform organic composition of capital as between the "layers" of productivity of land. For this analysis, the periodic decline in the organic composition was not associated with any change in the *technical* composition of capital (*TSV*, 11, 440). Rather it resulted only from the increasing value of labour power. For each 100 units of capital, this meant that the volume of labour power

purchased was adjusted to the variable capital available, allowing for the rise in the value of labour power.

Marx's analysis centred around the case of 100 units of capital with a composition of 60 constant and 40 variable capital which employed 20 men and generated surplus value at the rate of 50 percent on the variable component. The value produced on a given parcel of land in this case would be 120. From this basic example, the extension of production may involve, say, a rise in the value of wage commodities such that in order to employ 20 men, 50 units of variable capital were needed. The capital required to work each equal parcel of land with the same technology would be 110. What Marx did was to normalise all of the extensions to involve 100 units of capital by adjusting the capital composition *pro-rata*. In this particular case, the new proportion of constant capital would be such that  $110:60 = 100:54\frac{6}{11}$ , and of variable capital such that  $110:50 = 100:45\frac{5}{11}$ . The *new organic composition of capital* was then the ratio  $54\frac{6}{11}:45\frac{5}{11}$ , the *technical* composition being unchanged. For 100 units of capital now, less men would be employed to work less constant capital, but in the same physical ratio (TSV, 11, 439-41).

Ricardo hinted at a recognition of this approach to the analysis but he did not treat it in any comprehensive way. Marx quoted a passage from the *Principles*<sup>34</sup> which included the ideas that led Marx to conclude that:

Whereas elsewhere in his argument Ricardo always only stressed that in order to produce *the same quantity of product* on worse land, *more labourers* have to be paid, here at last he stresses what is decisive for the rate of profit, namely, that with the same amount of capital *fewer labourers are employed at increased wages*. (TSV, 11, 464-5.)

The upshot of Marx's elaboration of Ricardo's approach to the dynamics of distribution was that, in spite of his modifications to the method of analysis, the falling rate of surplus value still dominated in the fall of the agricultural rate of profit. In the example, the rate of surplus value fell from 87-1/2 percent to zero while the rate of profit followed and fell from 30-10/23 percent to zero. Thus, in Marx's

expression for the rate of profit:

$$r = \frac{s/v}{1 + c/v}$$

the declining rate of surplus value ( $s/v$ ) predominated over the declining organic composition of capital ( $c/v$ ) which would have tended to cause a *rise* in the rate of profit. The rate of surplus value here was not identified with the rate of profit as it was in Ricardo's analysis, but the result was that the former's decline directly caused the latter's decline. Marx here presented a formal analysis of a result that he rejected.

Marx went on to consider a further elaboration upon Ricardo's analysis which flowed from the explicit role given to constant capital. This involved a recognition that, in the present example, units of constant capital, to the extent that they included "raw produce", could rise in value too. In the case analysed by Marx, one half of the constant capital was assumed to comprise such produce (*TSV*, 11, 454). The normalised organic composition of capital for the 100 unit increments was now based upon ratios which included variable and constant capital variations, but still with a constant *technical* composition (*TSV*, 11, 455, 458). The effect of this extension of the analysis was to slow down the rate of decline of the organic composition of capital. Marx did not proceed very far with formalising this case, but it did emphasise further the limitations of Ricardo's analysis.

In the *Principles*, Ricardo treated the effects of capital accumulation largely independently of the falling rate of profits argument. Marx viewed this as a serious shortcoming of Ricardo's comprehension of the "motion" of capitalism. It reflected Ricardo's failure to give due regard to the role of capital in production and reproduction, to the significance of constant capital and to the dynamics of capital composition as accumulation proceeded. Marx reinforced this critique of Ricardo's approach by providing some more detailed discussion of what Ricardo did explicate about capital

accumulation. His discussion was in two stages: first at a general level and then more specifically in the context of the increasing mechanisation of production and its effects on workers.

Ricardo had asserted that saving automatically added to the capital stock used as advances to employ labour. Marx opened his critique of Ricardo's theory of accumulation by quoting the following passage from the *Principles* (TSV, 11, 470):

When we say that *revenue is saved, and added to capital*, what we mean is, that the *portion of revenue, so said to be added to capital, is consumed by productive instead of unproductive labourers.*<sup>35</sup>

It was Marx's view that this implied a serious misinterpretation of the nature of the capital accumulation process:

The conception that accumulation of capital is identical with conversion of revenue into wages, in other words, that it is synonymous with accumulation of variable capital - is one-sided, that is, incorrect. This leads to a wrong approach to the whole question of accumulation. (TSV, 11, 470.)

Any adequate interpretation of capital accumulation had to include explicitly both constant and variable capital expansion in the analysis.

In several passages which Marx went on to quote from the *Principles*, the implications of this omission of constant capital from the analysis were quite evident. Ricardo was aware that the source of saving, and thus of capital accumulation, was the existence of a surplus. For Ricardo, the only relevant form of this surplus in the present context was profit. Two passages in which Ricardo had considered this basis of accumulation were quoted by Marx (TSV, 11, 536-7).<sup>36</sup> Ricardo's approach in these passages was to identify the sources of saving in one and the sources of increases in wealth in the other. The argument was that an increase in the profit revenue of the capitalists *may* generate an increase in saving. Any increase in saving would be devoted to employing additional labour in production and the increase in wealth would result. In this case, Ricardo argued that there would be an increase in both the quantity of production

("riches") and the value of production ("value"). For Marx, the quantity increase was in use value form while the value increase was in exchange value form.

An alternative source of saving would arise if out of a constant profit revenue less was devoted by capitalists to consumption expenditure due to increased productivity in the production of the commodities involved (with the consequent reduction in their market value assumed) or through cheaper imports of the commodities. The results would be the same as those just outlined. In this case, though, there would be no change in the total profit or in the rate of profits, Ricardo argued, whereas in the previous case the saving depended upon an increase in profit and the rate of profits.

Marx provided no critical elaboration of this impressionistic analysis of Ricardo's and he appeared to accept it at its face value in spite of some evident problems. Especially did Marx not consider that profit and the rate of profits may not move together and that a change in the productivity of one sector of the economy could have an effect on profit and the rate of profits overall.

Ricardo also argued that in a more general sense, a rise in labour productivity would lead to an increase in the wealth of the nation assessed in terms of "riches". But, reasoned Ricardo, there would be no additional labour employed in this case. The consequence would be that "value" would not increase - a point which he made explicit in the following dictum: "The labour of a million men in manufactures, will always produce the same value, but will not always produce the same riches" (quoted by Marx, *TSV*, 11, 538).<sup>37</sup> Ricardo went further with this thesis and presented an example of stocking manufacture in order to illustrate it (*TSV*, 11, 538-9).<sup>38</sup> In this example, the value of total production remained constant but it comprised more stockings, or the same quantity of stockings plus a quantity of hats. This increase in output was facilitated by the introduction of a



machine which raised the productivity of the given labour force employed.

Now what troubled Marx about this analysis was its neglect of constant capital. As a consequence, Marx argued, Ricardo confused the dynamics of "riches" and "value" by not making it explicit that the increase in productivity could only be obtained by an additional outlay on the value of the machine. Ricardo did recognise that such an outlay would be required in these circumstances (*TSV*, 11, 537) but he did not integrate its effects into the *value* generation process. Not only would "riches" be increased, but also "value" (*TSV*, 11, 538) unless "the newly introduced machinery costs *nothing*" (*TSV*, 11, 539).

Ricardo's *obiter dicta* about capital accumulation did not give any attention to the inherent problems of capitalist reproduction that were part of the process in its broader perspective. We have seen that Ricardo was aware that saving out of profit was the source of capital accumulation, but this, Marx argued, was only a beginning. The surplus value saved had actually to be transformed, in part at least, into means of production, i.e. commodity capital. This transformation was dependent upon certain qualitative and quantitative conditions being met in production such that the pattern of demand for means of production matched the pattern of supply. As Marx saw it:

The question has now to be formulated thus: *assuming general accumulation*, in other words, assuming that capital is accumulated to some extent in all branches of production - this is in fact a condition of capitalist production and is just as much the urge of the capitalist as a capitalist, as the urge of the hoarder is the piling up of money (it is also a necessity if capitalist production is to go ahead) - what are the *conditions* of this general accumulation ...? ... *The conditions for the accumulation of capital are ... the very same as those for its original production or for reproduction in general.* (*TSV*, 11, 483.)

In the process of capital accumulation, the essential conditions were dictated by the requirements of expanded reproduction:

Just as the production and reproduction of existing capital in one *sphere* presupposes *parallel* production and reproduction in other spheres, so accumulation or the formation of additional capital in one branch of production presupposes *simultaneous or parallel*

creation of additional products in other branches of production. Thus the scale of production in all spheres which supply constant capital must grow simultaneously (in accordance with the average participation - determined by the demand - of each particular sphere in the general growth of production).... (TSV, 11, 485.)

Ricardo had revealed no awareness of such requirements or of the potential problems they raised for the accumulation process. He remained sanguine about the smooth development of capitalism through time.

For Marx, both replacement and additional constant capital had to be produced in the right proportions as part of the accumulation process (TSV, 11, 479-80). In considering this production, account had to be taken of the changing technology involved (TSV, 11, 470 ff). By not including constant capital in his analysis of accumulation, Ricardo had not taken proper account of technological effects. Indeed, as Marx read it, accumulation that only involved variable capital implied a *regression* in technology:

Can one suppose that the formation of additional capital takes place under worse conditions of production than the reproduction of the old capital? Does a reversion to a lower level of production occur? This would have to be the case if the new value [were] only on immediate labour, which, *without fixed capital* etc., would thus also first have to produce this fixed capital, just as originally, labour had to first create its constant capital. This is sheer nonsense. But this is the *assumption made by Ricardo, etc.* (TSV, 11, 485-6.)

Marx's appreciation of the physical requirements of continuous capital accumulation included some subtle insights. At one point he revealed a recognition of the "accelerator" principle of investment in which he took account of the relationship between the capacity of the constant capital producing industries and the demands for replacement and additional constant capital. In order that reproduction could proceed on an expanding scale, the capacity of these industries had to match up to the demands (TSV, 11, 478 ff). But, fully to employ this capacity continuously there had to be continuous growth in all sectors demanding the constant capital items concerned (TSV, 11, 480-1).

The accumulation process also brought with it additional labour

requirements. Thus, that part of surplus value devoted to expanding the advances to purchase labour power, i.e. variable capital, had to find the labour power available in the required quantity (and, at a more concrete level, *qualitative* requirements would also be relevant). The additional labour power could come from drawing on the "reserve army of labour" or by transferring into productive categories labour that had previously been employed unproductively. Moreover, the *use* value of existing labour power, i.e. its output of exchange value, could be increased by extending the working day. But, all of these sources of increase were limited. In the longer view, the essential epiphenomenon of capital accumulation was an increasing population (*TSV*, 11, 477-8).

What Marx made clear in these discussions of capital accumulation was that Ricardo's analyses were by no means an adequate reflection of the complexities of the process. There were several significant dimensions of capitalist "motion" which Ricardo had ignored or down-played and this had led him to present a distorted view of the nature of capitalism. Especially did Ricardo fail to grasp the potential for crisis immanent in the reproduction requirements of accumulation. We shall return to this issue in our next Chapter.

In Chapter XXXI, "On Machinery", which Ricardo added to the third edition of the *Principles*, he argued that an increase in the use of machinery in production would, under most circumstances, be detrimental to the welfare of the working class. This repudiated the opposite view which he had earlier espoused in parliament and elsewhere (although it had not been included in the first two editions of the *Principles*).<sup>39</sup>

Now Marx agreed with this revised view of Ricardo's and granted him a commendable degree of honesty for recanting in the matter (*TSV*, 11, 555). However, Marx's approach to Ricardo's treatment of the issue was still critical for he wanted to make it more explicit than Ricardo had done that the essential roots of the machinery effect on workers were to be located

in the nature of capitalism itself. To this end, Marx focussed his attention upon Ricardo's earlier reasoning, summarised in the *Principles*,<sup>40</sup> that all classes would benefit from the introduction of machinery (*TSV*, 11, 255-6). This gave him an *object* for his critique even though he would have recognised that Ricardo no longer held the views being attacked. Ricardo had made this clear at several points in the *Principles* and Marx had quoted the passages concerned (*TSV*, 11, 565, 569-70, 570).<sup>41</sup>

It was Marx's view that the analysis of the issue could be expedited by considering two "free" funds of value which potentially could emerge when machinery replaced labour in production. First, there were funds belonging to the capitalist who had introduced the machinery and dismissed the workers, and secondly, there were the funds of society as a whole which originated with the purchasers of the commodities produced by the capitalists more cheaply (*TSV*, 11, 557).

In the case of the first fund, Marx's point was that by reducing his use of variable capital the capitalist was unlikely to have any free capital which could be devoted to employing the displaced labour in some other production process. The machinery and associated constant capital needs would, Marx considered, absorb all such released variable capital. As a consequence of the introduction of the machinery, then, the total funds available to employ labour would be reduced with a resulting increase in unemployment. As Marx put it:

*Prima facie* it is not likely that the introduction of machinery will set free any of the capital of the manufacturer when he makes his first investment. It merely provides a new type of investment for his capital, its immediate result ... is the dismissal of workers and the conversion of part of the variable capital into constant capital. (*TSV*, 11, 558.)

Moreover, there was little chance that the displaced labour would find employment in the production of machines. In order to demonstrate this, Marx quoted at length Ricardo's arithmetical example from the *Principles* chapter "On Value" in which it was shown that the introduction of

fixed capital into production "modified" the formation of value (*TSV*, 11, 550-1).<sup>42</sup> Marx found in this example "the answer to those who believe that the workers displaced by machines find employment in machine manufacture itself". (*TSV*, 11, 551). He argued the point this way. If 100 men employed at 50 pounds per annum were replaced by a machine of value 5000 pounds then the machine must be produced by less than 100 men. Part of the 5000 pounds had to be unpaid labour which was the source of profit. If the rate of profit was 10 percent, then, Marx reasoned, the capital advanced to produce the machine could be only (approximately) 4545 pounds. Even if this was all variable capital, the employment at 50 pounds per annum would be only about 90 men. However, some of the capital advanced would be constant capital. The labour employed would be less than 90 men as a consequence depending upon the technical composition of capital used to produce the machine.

As far as the second fund was concerned, the improved productivity which was associated with the introduction of more technologically advanced machinery lowered the value of commodities in all industries involved. This freed *revenue* where the commodity was for consumption and *capital* where it was a means of production. Some of this released purchasing power *may* be exercised as an increase in demand and thus increase employment. However, Marx saw little scope for optimism in this for the workers displaced in the light of increasing population and the possible foreign trade leakage of demand. Moreover, for the *particular* workers dismissed there was no guarantee that *they* would be re-employed even if demand increased (*TSV*, 11, 558).

The issue was a complex one and the nature of capitalism mitigated against its solution. There was little doubt, Marx reasoned, that unemployment would rise absolutely and relatively as a consequence of the increasing mechanisation of production. The capitalist system could not ensure that displaced labour was re-employed. This outcome for labour

reflected two contradictory tendencies of capitalism:

[first,] to employ as little labour as possible, in order to produce the same or a greater quantity of commodities, in order to produce the same or a greater net produce, surplus value, net revenue; secondly, to employ the largest possible number of workers ... because - at a given level of productivity - the mass of surplus value and of surplus product grows with the amount of labour employed. The one tendency throws the labourers onto the streets and makes a part of the population redundant, the other absorbs them again and extends wage slavery absolutely, so that the lot of the worker is always fluctuating but he never escapes from it. The worker, therefore, justifiably regards the development of the productive power of his own labour as hostile to himself; the capitalist, on the other hand, always treats him as an element to be eliminated from production. These are the contradictions with which Ricardo struggles in this chapter ["On Machinery"]. (*TSV*, 11, 573.)

These contradictory tendencies were inherent in the nature of capitalism and, *on balance*, their consequence was asserted by Marx to be detrimental to the workers. Ricardo's "struggle" with the contradiction was an unconscious one for he did not approach the issue in this way and failed to ascribe the workers' plight to capitalism itself.

Ricardo was favourably disposed towards the work of John Barton, his contemporary, on the machinery issue<sup>43</sup> and Marx concurred in this. Of Barton Marx wrote that: "Indisputably ... [he] has very great merit" (*TSV*, 11, 577).

Barton presented a more detailed argument than Ricardo had done to the effect that capital accumulation would involve a changing composition of capital and a relative decrease in the employment of labour. In Marx's view:

Barton was the first to point out that the different organic component parts of capital do not grow evenly with accumulation and development of the productive forces, that on the contrary in the process of this growth, that part of capital which resolves into wages decreases in proportion to that part (he calls it fixed capital) which in relation to its size, alters the demand for labour only to a very small degree. He is therefore the first to put forward the important proposition "that the number of labourers employed is" *not* "in proportion to the wealth of the state", that relatively more workers are employed in an industrially undeveloped country than in one which is industrially developed. (*TSV*, 11, 577.)

Marx noted that Ricardo had followed Barton in expressing the idea in the

*Principles that: "The demand for labour will continue to increase with an increase of capital, but not in proportion to its increase; the ratio will necessarily be a diminishing ratio".* (quoted by Marx, *TSV*, 11, 576).<sup>44</sup> Ricardo's advance over Barton was to explicate that this tendency involved the creation of an increasing surplus of population that was redundant *vis-a-vis* the expanding production process.

The limitation of Barton's and Ricardo's analysis of this aspect of accumulation was their adherence to the fixed-circulating capital dichotomy which was derived from the analysis of circulation. The focus was more appropriately production *per se* in this issue and the relevant dichotomy was between constant and variable capital, a *principle* which had been recognised by George Ramsay (*TSV*, 11, 578-9).

Moreover, Marx argued that neither Barton nor Ricardo had given due attention to the cause and effect interpretations of capitalist accumulation. At the causal root of the process of accumulation itself and its consequences was the nature of capitalism. Capitalist striving for increased mechanisation of production, the resultant changing composition of capital and the increasing redundancy of labour were all *effects* with the same essential cause in Marx's interpretation (*TSV*, 11, 579-80). As far as he was concerned, there was no inherent reason for the relative decrease in the employment of labour outside of the specific form of the production regime based upon capital. For Marx, things could be different:

There is nothing in the, so-to-speak, physical conditions of production which forces the above to take place. The workmen, if they were dominant, if they were allowed to produce for themselves, would very soon, and without great exertion, bring the capital ... up to the standard of their needs. The very great difference is whether the available means of production confront the workers as capital and can therefore be employed by them *only* in so far as it is necessary for the increased production of surplus value and surplus produce for their employers, in other words whether the means of production employ *the workers*, or whether the workers, as subjects, employ the means of production ... in order to produce wealth for themselves. It is of course assumed here that capitalist production has already developed the productive forces of labour in general to a sufficiently high level for this revolution to take place. (*TSV*, 11, 580.)

Once the physical development of the means of production had reached a certain point under the auspices of capital, the continued increasing redundancy of labour could be avoided if capitalism was replaced by a system akin to what today would be called "worker control" of production. Some revolution in the relations of production was required, Marx thought, in order to prevent the lot of workers from progressively deteriorating.

### 12.2.3 CAPITAL ACCUMULATION ANALYSIS AFTER RICARDO.

In his critique of political economy after Ricardo, Marx found only three writers whose thoughts on capital accumulation warranted attention. In their various ways and to varying degrees, Hodgskin, Ramsay and Cherbuliez related the capital accumulation process to the changing composition of capital, the tendency of the rate of profits to fall and the employment effects on workers.

Hodgskin's book *Labour Defended against the Claims of Capital etc.* of 1825 contained a theory of the falling rate of profits which Marx found accorded well with his own (*TSV*, 111, 298 ff). Hodgskin's argument was that because interest or profit was the source of saving by means of which capital was accumulated, the increase in the capital stock through time would be at a compounding rate. In each successive period, the profit from the previous period would be included as capital and the rate of profits applied meant ever growing absolute additions to the pre-existing capital stock. This compounding accumulation process, though, was distorted by the falling rate of profits.

The fall of the rate of profits was explained by Hodgskin to be the consequence of a shortage of labour as capital accumulated at its compound rate. A rising ratio of capital per unit of labour resulted in a reduced rate of returning profit from production which in the long run would dominate any improvement in labour productivity which accompanied the



capital accumulation (*TSV*, 111, 298).

Hodgskin's impressionistic thesis depended essentially upon the rate of population increase falling well behind the rate of capital accumulation, as Marx noted (*TSV*, 111, 299, 306). Given that this occurred, Marx felt that the principle behind the falling rate of profits in Hodgskin's work was similar to his own:

I have explained the decline in the rate of profit in spite of the fact that the rate of surplus value remains the same or even rises, by the decrease of the variable capital in relation to the constant, that is, of the living, present labour in relation to the past labour which is employed and reproduced. Hodgskin ... explain[s] it by the fact that it is impossible for the worker to fulfil the demands of capital which accumulates like *compound interest*.... In its general sense, this amounts to the same thing. If I say that, as capital accumulates, the rate of profit declines because constant capital increases in relation to variable capital, it means that, disregarding the specific form of the different portions of capital, the capital employed increases in relation to the labour employed. [The rate of] profit falls not because the worker is exploited, but because altogether less labour is employed in relation to the capital employed. (*TSV*, 111, 302, cf. 311, 313.)

In this conclusion we feel that Marx was overgenerous to Hodgskin. Beyond a superficial appearance, there was no evidence provided by Marx that Hodgskin had grasped the essential origin of the falling rate of profits in the nature of the capital accumulation process and the changing composition of capital. In Marx's own analysis, the rising organic composition of capital was a *conscious* result of the behaviour of competitive capitalists. By contrast, for Hodgskin this outcome was an *accident* of the relative rates of expansion of capital and population. Marx integrated this rising organic composition of capital into a logical framework of analysis which, granted its limitations, produced the falling *value* rate of profits as its result. According to Marx's own critique, Hodgskin did nothing like this.

The work of George Ramsay to which Marx referred was *An Essay on the Distribution of Wealth* published in 1836. Ramsay's merit, in Marx's view, centred upon his *effective* formulation of the constant capital - variable capital dichotomy, although he retained the fixed-circulating

categories and related his reformulated dichotomy only to circulation instead of to production (*TSV*, 111, 326-7). Moreover, Ramsay came close to expressing the category surplus value and its origin appropriately, although tradition again impeded his intellectual progress (*TSV*, 111, 328-9).

In spite of these limitations, though, Marx found that Ramsay had interpreted correctly the effects of capital accumulation on the composition of capital and on the welfare of workers. Because of the former, which involved a relative reduction in the demand for labour, the latter did not increase in line with the growing wealth of the nation (*TSV*, 111, 334-6).

Ramsay had come "closer to a correct understanding of the rate of profit than the others" (*TSV*, 111, 351), but the analysis of its dynamics in the context of capital accumulation which he provided was incomplete. The "correctness" of Ramsay's conception of the determination of the rate of profit was demonstrated in the following passage quoted by Marx (*TSV*, 111, 351):

... the causes which regulate the rate of profit in individual cases [...] we have found to be, 1) The Productiveness of the Industry engaged in raising those articles of primary necessity which are required by the Labourer for Food, Clothing, etc.  
 2) The Productiveness of the Industry employed in raising those objects which enter into the composition of Fixed Capital.  
 3) *The rate of Real Wages.*

Thus Ramsay was able to go some way towards understanding the effects of capital accumulation on the rate of profits. In particular, to the extent that capital accumulation involved increased productivity in the production of variable and constant ("fixed") capital commodities, the reduced values of these commodities would effect a *rise* in the rate of profits. The *value* composition of capital could be affected by the relativities of these changes, but what was missing from Ramsay's treatment was the dominant effect of capital accumulation in raising the *technical* composition of capital which in Marx's analysis was the key to the tendency

of the rate of profits to fall. This omission of Ramsay's was not emphasised by Marx even though it represented a major difference from his own analysis. He simply noted in passing that Ramsay had not provided any coherent analysis of the tendency (*TSV*, 111, 354).

In several ways, the ideas that Marx found in Cherbuliez's *Richesse au pauvrete* of 1841 on the capital accumulation issue were similar to those of Ramsay, both in their merits and in their limitations. Cherbuliez went further in formalising the analysis of the rate of profits, but he also failed to provide any effective explanation of the dynamics of the rate of profits. Without the category surplus value to explain profit, he was left without the essential foundation for an analysis of the effects of capital accumulation.

Marx's interpretation was that Cherbuliez had, in principle, grasped the constant-variable capital dichotomy but that he had not applied it in linking capital accumulation to its effects on the rate of profits. The inkling that he had that the composition of capital was decisive in determining the rate of profits was left undeveloped (*TSV*, 111, 370). As Marx saw it:

It is an incontrovertible fact that, as capitalist production develops, the portion of capital invested in machinery and raw materials grows, and the portion laid out in wages declines. This is the only question with which both Ramsay and Cherbuliez are concerned. For us, however, the main thing is: does this fact explain the decline in the rate of profit? (*TSV*, 111, 364-5.)

Evidently, for Ramsay and Cherbuliez this crucial question of Marx's was not an issue.

Ironically, it can be argued that Marx's own analysis at this point was not very clear about the involvement of the changing composition of capital in the tendency of the rate of profits to fall (*TSV*, 111, 364-7).<sup>45</sup> In referring to the composition of capital, Marx implied the ratios  $c/(c + v + s)$  and  $c/(v + s)$  (*TSV*, 111, 364), both of which were argued to rise as capital accumulated. The same effect was also expressed as

$(v + s)/c$  falling (*TSV*, 111, 367). Now these arguments were different from that which had  $c/v$  rising (*TSV*, 111, 366). At the same time, Marx continued to use the rising *physical* ratio of machinery to workers (*TSV*, 111, 365), and at one point he brought them together in the following confusing piece:

It is therefore self-evident ~~on~~ a tautological proposition that the increasing productivity of labour caused by machinery corresponds to increased value of the machinery relative to the amount of labour employed (consequently to the value of labour, the variable capital). (*TSV*, 111, 366-7.)

Marx seemed to regard all of these expressions as moving together as capital accumulated, but a considerable degree of imprecision remained in his thought on this matter.

In spite of this imprecision, Marx pressed on with his critique of Cherbuliez's endeavours. He made his attitude clear in the following passage:

The distorted conception and bungling application of the approximately correct distinction between the elements of capital, and the vague idea that profit and rate of profit are directly connected with the ratio of these elements to one another, only lead to a repetition of the generally known phrases in a rather doctrinaire fashion, in fact merely to a statement that profit and rate of profit exist without, however, anything being said about their nature. (*TSV*, 111, 374.)

According to Cherbuliez, the rate of profits *could* decline as capital accumulated, but Marx found his argument convoluted and contradictory (*TSV*, 111, 374-6). Profit was defined by Cherbuliez as:

$$\pi = P - c$$

where:  $P$  = "the aggregate product of a given period of time"

$c$  = "the capital used up".

The rate of profits was then:

$$r = \frac{\pi}{C}$$

where:  $C$  = "the capital invested" (quoted by Marx, *TSV*, 111, 374).

What happened to the rate of profits as  $C$  grew depended upon the relative rates of growth of  $P$  and  $c$  and of  $C$  itself. In this argument there was

little more than tautology for Cherbuliez gave no reasons for the relativities that *would* cause the rate of profits to fall. Marx concluded as follows:

Thus the final pearl of wisdom is that the rate of profit can fall, that is, the ratio of an increasing amount of profit to capital can fall when the capital increases more rapidly than the amount of profit, or if the amount of profit, despite the absolute growth, declines relatively in comparison with the capital. This is nothing but a different expression for the decline in the rate of profit. But that this phenomenon is within the bounds of possibility, and even its existence, has never been called into question. The sole point at issue was precisely to explain the cause of this phenomenon, and Cherbuliez explains the decline in the rate of profit, the decline in the amount of profit in relation to the total capital, by the relative increase in the amount of profit which is at least proportionate to the growth of the capital [*sic*]. He obviously surmises that the mass of living labour employed declines relatively to past labour, although it increases absolutely, and that *therefore* the rate of profit must decline. But he never arrives at a clear understanding. (*TSV*, 111, 376.)

Marx's finding at the end of this passage can only be termed generous in the light of Cherbuliez's fundamental errors of logic in analysing the rate of profits.

Marx's critique of these antecedent analyses of capital accumulation and its consequences must have reinforced his belief in the superiority of his own exposition of the issue. The limitations that he exposed in these analyses were considerable, most essentially due to their failure to work from an appropriate conception of the nature of capitalism.

The culmination of Marx's analysis of capital accumulation was for it to be integrated with the other facets of capital's "motion" in order to establish the immanently crisis prone nature of capitalism. To the critico-historical content of this endeavour we turn in our next Chapter.

## NOTES

1. Cf. Bernice Shoul, "Karl Marx and Say's Law", p.626, and Michael Howard and John King, *The Political Economy of Marx*, p.119 and pp.195-6.
2. This is the theme of his "Karl Marx and the Industrial Revolution" in Eagly (ed.), *Events, Ideology and Economic Theory*, and cf. his "Some Problems in the Theory of Capital Accumulation", *Monthly Review*, 26:1, May 1974, pp.44-5.
3. Sweezy, "Karl Marx and the Industrial Revolution", p.112. Ronald Meek, in his "Discussion" of Sweezy's paper, questioned the degree of conservatism of the age of "manufacture" ascribed by Sweezy, p.120.
4. "Discussion", p.121. Cf. Meek, "Karl Marx's Economic Method" in *Economics and Ideology and Other Essays*, (Chapman and Hall, London, 1967), p.107.
5. *The Political Economy of Marx*, p.182.
6. *Marx After Sraffa*, p.133.
7. See, e.g., Mario Cogoy, "The Fall of the Rate of Profit and the Theory of Accumulation: A Reply to Paul Sweezy", *Bulletin of the Conference of Socialist Economists*, Winter 1973, p.57; Ben Fine and Laurence Harris, "Controversial Issues in Marxist Economic Theory", *Socialist Register*, 1976, pp.160-1; Howard and King, *The Political Economy of Marx*, p.197; and Lebowitz, "Marx's Falling Rate of Profit: a Dialectical View", pp.243-4.
8. "Marx's Theory of the Crisis", pp.113-4. Cf. David Yaffe, "The Marx-ian Theory of Crisis, Capital and the State", *Economy and Society*, 2:2, May 1973, p.194 where a similar view is expressed.
9. *Marx After Sraffa*, pp.124-5, 133-4.
10. "Some Problems in the Theory of Capital Accumulation", p.46.
11. "The Marxian Theory of Crisis, Capital and the State", pp.195-6.
12. "Some Problems in the Theory of Capital Accumulation", p.45.
13. Howard and King, *The Political Economy of Marx*, pp.198-9 and Steedman, *Marx After Sraffa*, pp.133-5.
14. See, e.g., Paul Sweezy, *The Theory of Capitalist Development*, p.102.
15. "Marx's Falling Rate of Profit: A Dialectical View", pp.240-1. Cf. Howard and King, *The Political Economy of Marx*, p.117 and Fine and Harris, "Controversial Issues in Marxist Economic Theory", pp.161-2 where related ideas are expressed.
16. See, e.g., Ronald Meek, "The Falling Rate of Profit", in *Economics and Ideology and Other Essays*, p.130 and p.134.

17. See, e.g., Joan Robinson, *An Essay on Marxian Economics*, [1942], second edition, (Macmillan, London, 1966), Chapter V; Meek, "The Falling Rate of Profit", pp.134-5; Geoff Hodgson, "The Theory of the Falling Rate of Profit", *New Left Review*, 84, March-April 1974, p.60 and pp.80-1; and Howard and King, *The Political Economy of Marx*, pp.204-5 and p.207.
18. Yaffe, "The Marxian Theory of Crisis, Capital and State", pp.200-2; Cogoy, "The Fall of the Rate of Profit and the Theory of Accumulation: A Reply to Paul Sweezy", pp.57 ff; Himmelweit, "The Continuing Saga of the Falling Rate of Profit: A Reply to Mario Cogoy", *Bulletin of the Conference of Socialist Economists*, Autumn 1974.
19. Meek, "The Falling Rate of Profit", pp.130-1 and 135-7.
20. *Marx After Sraffa*, pp.116 ff.
21. In this sense, Steedman's repeated *criticism* of Marx over this point is too strong: *Marx After Sraffa*, pp.14, 30-1, 44, 46-9, 61, 96-8.
22. "The Falling Rate of Profit", pp.130-1.
23. Howard and King, *The Political Economy of Marx*, pp.205-6.
24. "Controversial Issues in Marxist Economic Theory", pp.162-3, emphasis original.
25. *The Political Economy of Marx*, pp.199-200.
26. *The Political Economy of Marx*, pp.203, 209-10, and the general discussion of these issues, pp.132 ff and 199 ff. Similar discussion is provided by Ronald Meek, "Marx's Doctrine of Increasing Misery", in *Economics and Ideology and Other Essays*, pp.113 ff and by Roman Rosdolsky, *The Making of Marx's 'Capital'*, pp.296 ff.
27. "Marx's 'Doctrine of Increasing Misery'," p.124, Meek's emphasis.
28. "Marx's Falling Rate of Profit: A Dialectical View", p.250, Lebowitz's emphasis.
29. "Marx's Falling Rate of Profit: A Dialectical View", p.250.
30. "Discussion", p.123.
31. *Works*, 1, p.126, Marx's emphasis.
32. "Introduction" to *Works*, 1, pp.xxxii-xxxiii.
33. "Introduction" to *Works*, 1, p.xxxii.
34. *Works*, 1, 126-7.
35. *Works*, 1, 151n, Marx's emphasis.
36. *Works*, 1, 131-2 and 278-9.
37. *Works*, 1, 273.

38. *Works*, 1, 273-4.
39. See Piero Sraffa's "Introduction" to *Works*, 1, pp.lvii-lx.
40. *Works*, 1, 386-8.
41. *Works*, 1, 388, 390, 392.
42. *Works*, 1, 40-2.
43. *Works*, 1, 395n.
44. *Works*, 1, 395, Marx's emphasis.
45. See Ian Steedman, *Marx After Sraffa*, pp.135-6.



## CHAPTER 13

THE DYNAMICS OF PRODUCTION AND CIRCULATION AND  
THE CAPITALIST CRISIS.

## 13.1 INTRODUCTION TO MARX'S THOUGHT ON THE CAPITALIST CRISIS.

For Marx, the capitalist crisis was the ultimate object of his political economy. His analysis of capitalism, built upon the foundation of the theory of surplus value, was destined to be applied to exposing and comprehending the unstable "motion" of the system as it moved inevitably towards its self-destruction at the hands of the revolutionary proletariat. Maurice Dobb's words emphasise for us the systematic scope of the crisis phenomenon in Marx's thought:

... Marx clearly regarded crises, not as incidental departures from a predetermined equilibrium, not as fickle wanderings from an established path of development to which there would be a submissive return, but rather as themselves a dominant form of movement which forged and shaped the development of capitalist society. To study crises was *ipso facto* to study the dynamics of the system; and this study could only be properly undertaken as part of an examination of the forms of movement of class relations (the class struggle) and of the class revenues which were their market expression.<sup>1</sup>

Some decades later, this interpretation of the crisis is reiterated by

Trent Schroyer:

Marx's crisis theory was an attempt to reconstruct the constitutive dynamic of capitalist accumulation *and* the social consequences of this dynamic.

...  
Marx's theory of capitalist crisis attempted to grasp the totality of the dynamic of the capitalist epoch. Its intention was to show how this dynamic recurrently generates intensified constraints upon societal and human development.<sup>2</sup>

Such, then, was the grand design of Marx's analysis of the crisis. It was the systematic and immanent key to the fate of capitalism. The analysis itself, however, as is well known, never attained the calibre of its design

and Marx left it in an incomplete state.

The state of Marx's theory of the instability of capitalist development is captured by Joseph Schumpeter in the following passage:

Marx's performance in the field of business cycles is exceedingly difficult to appraise. The really valuable part of it consists of dozens of observations and comments, most of them of a casual nature, which are scattered over almost all of his writings, many of his letters included. Attempts at reconstruction from such *membra dijecta* of a body that nowhere appears in the flesh and perhaps did not even exist in Marx's own mind except in an embryonic form, may easily yield different results in different hands ....<sup>3</sup>

Schumpeter's remarks were indeed prophetic, for over the years much controversy has been spawned by Marx's confusing legacy in this crucial finale to his "laws of motion" analyses. By way of introductory background, we outline below some of the issues involved before proceeding in the next Section to a discussion of Marx's crisis thought as it appeared in the critico-historical context of "Theories of surplus value".

Implicit in Marx's analysis was a twofold meaning of the category "crisis". The analysis had to encompass the idea that capitalism faced a fatal *secular* crisis over the long-run as well as the short-run fluctuations in economic activity which characterised the development process and part of which was the temporary recessionary crisis. Dobb, Schumpeter and Sweezy<sup>4</sup> all argue that these two facets of the "crisis" analysis belonged in an integrated format, a format which Marx did not present. For most of his analysis, the capitalist system was envisaged as staggering from one short-run crisis to another with ever increasing depths of recession preceding the ultimate demise of capitalism and the transition to socialism. The specific links between the short-run and long-run phenomena were never specified by Marx, but it does appear that the latter involved dimensions not present in the former.

Methodologically, Ben Fine and Don Harris argue that Marx analysed the crisis and its causes at different levels of abstraction.<sup>5</sup> His pre-*Grundrisse* studies of crises, especially during the 1850s, were at the

*phenomenal-descriptive* level. The element of description remained in much of his subsequent, more abstract treatment of the analysis and, as a consequence, it lacked *explanatory* content.<sup>6</sup> For Paul Sweezy, it is the case that Marx's analysis lacked this content because even in *Capital* the *scope* of his work was inadequate to the task. Sweezy argues that:

... the crisis as a complex concrete phenomenon could not be fully analysed on the levels of abstraction to which *Capital* is confined. What we do find are all the aspects of the crisis problem which emerge on the higher levels of abstraction. These appear from time to time throughout the analysis, though not necessarily in logical order from the point of view of an overall treatment of crises. It is probably safe to say that if Marx had lived to complete his analysis of competition [of capitals] and credit he would have given us a thorough and systematic treatment of crises.<sup>7</sup>

Here the limited scope of *Capital* has both methodological and substantive dimensions. Sweezy's interpretation is that these were concomitant aspects of Marx's programme for the analysis of capitalism. From his original plans and the evident structure of *Capital*, there is some justification for this view. In Sweezy's case, the extension of the analysis in *Capital* that was required was a more complete treatment of capital at a lower level of abstraction. This implies, as we have also concluded (above, Chapter 2, Section 2.3), that the idea that crises belonged at the end of a six-book project was dropped by Marx. Howard and King also conclude that the crisis analysis did not belong in *Capital*, but they retain the view that this was partly due to the failure by Marx to complete the six-book "Economics" projected in the *Grundrisse* (see above, Chapter 2, Section 2.1). This project placed crises with the "world market" in Book VI with the inference that in order to comprehend the complexities involved, the required prerequisite was a full analysis of capital, landed property, wage labour, the State and the State in its world context. Marx, therefore:

... considered it methodologically inappropriate to give a complete analysis of the cycle within the confines of the three published volumes of *Capital*. He never succeeded in undertaking the final stages of his work foreshadowed in the *Grundrisse*.<sup>8</sup>

But Howard and King proceed to add that this does not provide a full

explanation of Marx's limited treatment of crises. Their implied suggestion is that Marx simply fell short of providing a complete analysis of what he began for reasons unknown. They write:

... although Marx made great strides forward in his cycle theory, there are areas in which he did not put forward satisfactory explanations. One is struck, in fact, by the similarity with his analysis of the transformation of values into prices of production. In both cases the complexity is recognised, the problem stated, and strong hints of a solution outlined, but in neither is such a solution adequately worked out.<sup>9</sup>

With this view we agree and thus we conclude with less optimism about Marx's potential for progress in his crisis analysis than Sweezy. More than an issue of scope was involved.

For Marx, the most consequential outcome of capital accumulation and the progress of capitalist development was the falling rate of profits. The role played by this vital dimension of capitalism's "motion" in the short-run and long-run crises was not analysed coherently by Marx. This has left room for different interpretations of what he intended.

The falling rate of profits was a *production based* consequence of capital accumulation. For crisis analysis, a crucial issue was the time dimension in which Marx thought of this consequence. Was it an ultimate, long-run trend or a short-run phenomenon, or both? Also relevant was the role in the time context of the countervailing factors to the fall of the rate of profits. Did these act in the short-run or the long-run or both? What was their quantitative relativity through time?

Given the production basis of the falling rate of profits there was to be considered the role of the circulation process in the phenomenon. For the initial purpose of analysing the falling tendency itself, the isolation of production was legitimate. In analysing the crisis, though, the integrated nature of production and circulation which Marx had emphasised had to be made explicit. The falling rate of profits, whatever its crisis status, had to be integrated with the complexities of capitalist circulation, including the probable failure of the process to fulfil

itself due to the "anarchy" of production and demand.

The approach of interpreters to the crisis analysis has been to begin, at least, by separating the dimensions involved in terms of their connection with production and with circulation. Paul Sweezy thus divides the analysis between "crises associated with the falling tendency of the rate of profit" and "realisation crises" with the latter being further divided between "crises arising from disproportionality" and "crises arising from underconsumption".<sup>10</sup>

In a more recent contribution, Makoto Itoh posits two different types of theory presented by Marx: the "excess capital theory" and the "excess commodity theory", with these two "not easily made consistent with each other".<sup>11</sup> Itoh argues that they were connected, though, in the sense that "excess commodities" may be the cause of an excess of capital and the falling rate of profits, *and* that capital accumulation, accompanied by the falling rate of profits, may be the cause of excess commodities being produced and the subsequent realisation problems. In a crisis, then, both "excess commodities" and "excess capital" should coexist, although Marx did not expost this very clearly or specify which was the more essential in a causal sense. In Itoh's view, one should have been so specified. For him, the "excess commodity" theory was an "anti-classical residue" in Marx's *Capital* analysis and involved too much emphasis upon circulation with the consequence that *results* appeared to be causes. The "excess capital" theory Itoh finds to be unique to *Capital* and in keeping with Marx's emphasis upon the essential determining role of capital. This theory, though, remained less than fully developed.<sup>12</sup>

Itoh does not see the "excess capital" theory as identical to Sweezy's falling rate of profits basis for the crisis, the former being independent of the latter. However, Itoh's inclinations are in accord with Sweezy's dictum that:

It is important to grasp the difference between crises associated with the falling tendency of the rate of profit and realisation

crises. The practical capitalist is unlikely to see any difference; for him the trouble is always insufficient profitability from whatever source it may arise. But from the point of view of causal analysis, the two types of crises present divergent problems. ... The starting point of the crisis is in both cases a decline in the rate of profit; but what lies behind the decline in the rate of profit in the one case requires a very different analysis from what lies behind the decline in the rate of profit in the other.<sup>13</sup>

The idea here is that for Marx, the falling rate of profits was the key to the *perception* of the crisis. It may originate in production due to the rising organic composition of capital (net of the effects of counteractions) or in circulation due to realisation problems. Both sources of the fall were probably present in a crisis and, while they were separable analytically, they *appeared* as a single result.

Now what Itoh does is to de-emphasise the falling rate of profits as a consequence of the changing organic composition of capital. This cause of the fall was not related to any concept of an "excess" of capital *per se*. It is our view that Itoh's interpretation argues the cause of the crisis to be an excess of commodities with this excess being viewed alternatively from the supply side ("excess capital" theory) and the demand side ("excess commodity" theory). The falling rate of profits is interpreted as having no *explanatory* role in Marx's crisis analysis.<sup>14</sup>

In the interpretations of Sweezy and Itoh, the falling rate of profits cannot take a *causal* role in Marx's crisis theory. The arguments point to the fall as only a manifestation of the crisis. This interpretation is not universally accepted, and for some writers, the falling rate of profits was the centrepiece of Marx's analysis. Bernice Shoul refers to the falling rate of profits as "the fundamental causal element in economic development" and "the source of periodic crises".<sup>15</sup> With this David Yaffe and Mario Cogoy would agree. Yaffe is quite explicit on this point:

There exists besides the Marxian theory of value and accumulation (of which the second is only a more concrete development of the first) no separate theory of crisis.

...  
 Although the actual crisis has to be explained out of the real movement of capitalist production, credit and competition ..., it is the general tendencies of the accumulation process itself and the long-run tendency of the rate of profit to fall that constitutes the basis of that explanation. These tendencies have been analysed through an understanding of the 'inner nature of capital'.<sup>16</sup>

What Yaffe does here is to emphasise the primacy which Marx gave to the nature and role of capital in production and to the capital accumulation process and the falling rate of profits in comprehending the "motion" of capitalism. Marx's theory of the crisis was built up from these essential foundations and it was part of an, albeit incomplete, whole. The idea that realisation problems can have any existence in the crisis analysis independently of the falling rate of profits as their cause is rejected by Yaffe and Cogoy.<sup>17</sup> There was in the structure of the circulation part of the expanded reproduction process the *potential* for disruption. But Yaffe's point is that Marx envisaged the possibility of crisis due to capital accumulation itself irrespective of circulation problems, although the *full development* of the crisis theory would encompass competition and circulation. The cause of the crisis should not be confused with the structural possibilities of it.<sup>18</sup> It is Fine's and Harris' view, though, that Yaffe and Cogoy do not give due attention to the *autonomy* of the circulation process and Sweezy reiterates effectively the same view when he rejects the Yaffe-Cogoy interpretation. In Sweezy's reading of Marx, the falling rate of profits had little to do with *generating* crises. Rather it was regarded as representing the

... significant and striking contradiction of capitalism that the increase in the productive power of labour should express itself in a manner tending to obstruct the unfettered development of the system. But he did not formulate a specific theory of crises, let alone capitalist breakdown, on this basis.... For Marx, the falling tendency of the rate of profit was a manifestation of only one of capitalism's many contradictions.<sup>19</sup>

Thus, in line with his earlier contribution, Sweezy rejects the causal role of the falling rate of profits. Indeed, he here rejects the idea of

causality altogether except to ascribe this to the *contradictions* inherent in the capitalist system. The crisis *manifests* these contradictions in the forms of the falling rate of profits *and* the disruption of the circulation process. In this sense the two phenomena have equal status.

Michael Howard and John King also emphasise the independence of circulation problems by noting that Marx "nowhere appears to conceive of crises independently of a deficiency in aggregate demand ...." They continue:

Thus crises are characterised as periods of "overproduction", in the sense that too much is produced in relation to effective demand .... Thus every crisis is a "realisation crisis" in that there is a failure to realise the full value and, therefore, the full surplus value of commodities in the form of money .... In consequence, crises represent the phase of disturbance or interruption in the process of reproduction .... Crises are characterised, *inter alia*, by a decline in output.<sup>20</sup>

Having stated the *form of appearance* of the crisis, Howard and King recognise that for Marx this did not embrace the *cause* of the crisis. In their interpretation, the cause of the crisis was the falling rate of profits.

Marx's emphasis on the critical role of changes in the rate of profit brings his analysis one step closer to the concrete causal factors involved in crises. Commodity production and the use of money contain the possibility of crises. Capitalism *actualises* these possibilities in so far as the requisite changes in the rate of profit occur.<sup>21</sup>

The role of the falling rate of profits in this interpretation is similar to that expressed by Yaffe and Cogoy with two variations of emphasis. First, Howard and King give more prominence to the circulation manifestation of crises and, secondly, the role of the fall itself is "softened" in that it is here only a *basis* for explaining the crisis while for Yaffe and Cogoy the role was such as to cause Sweezy to refer to it as "the fetishization of the falling tendency of the rate of profit".<sup>22</sup>

Michael Lebowitz presents a further view of the role of the falling rate of profits in Marx's crisis theory. For Lebowitz, the fall based on production dynamics was the "first act" only in the crisis of capitalism.



The analysis needed to be immediately extended to encompass the circulation process for only in this process was the fall of the rate of profits manifested. Moreover, the circulation process itself affected the realised rate of profits (even in its *value* dimension) through circulation time and the potential for failure to dispose of commodities at their produced value. Thus, concludes Lebowitz:

... the decline in the rate of profit is the way in which the contradiction between production and circulation of capital expresses itself, via the emergence of unsold commodities and the increase in circulation time. It is no more possible to eliminate from Marx's argument the tendency of the rate of profit to fall than it is to eliminate the sphere of circulation of capital.<sup>23</sup>

Here the falling rate of profits is interpreted to be a key *outcome* of the expansion of production *and* circulation and the essential *expression* of the crisis in Marx's analysis.

Lebowitz's reading of Marx's thought on crises sets it in the context of the dialectical process of secular decline which Marx saw as the central thread of capitalism's "motion". The falling rate of profits was a "barrier" to the capitalist development process which emerged periodically and stimulated responses from capitalists which ensured that the disruption was only temporary. As John Elliott puts it:

As with alienation and exploitation, crises clearly emanate from basic aspects of the capitalist structure and growth process. In a sense, they are dysfunctional elements, evidencing "contradictions" and constituting "barriers" to further development. For Marx, however, the basic law of motion of capitalist development is dialectical. Expansion creates barriers to growth; barriers, in turn, serve as stimuli to further expansion. A barrier does not necessarily constitute a fundamental boundary condition or an ultimate, intrinsic limit to expansion; indeed, it is a goad to further development ....<sup>24</sup>

Thus it was through the reduction of production and the devaluation or destruction of capital that the falling rate of profits was arrested and the "barrier" transcended. The crisis itself provided its own counter-vailing influences.<sup>25</sup>

Lebowitz's interpretation of the "final act" in capitalism's secular decline rejects any idea that Marx saw capitalism as stagnating in

the sense expressed by Classical political economists. There would be a "breakdown" of the system but it would not be exclusively the consequence of the *economic* aspects of recurring crises. Elliott sees the decline in the following terms:

Closer to Marx's position would be a shift to a lower *rate of* growth in output, combined with increased cyclical amplitude, shown by greater departures from full-employment output during contractions .... This would give ample evidence of economic contradictions, but, *by itself*, would fall considerably short of capitalism's demise. Indeed, unless the capitalist economy were to settle down into a stationary state, it would continue to grow and to demonstrate its various creative properties, though presumably in subdued form. In short, the vision of capitalism's future that emerges from Marx's more strictly economic analysis of crises and falling profit rates is that of a formerly progressive system in decay, a less creative and presumably more unpleasant society to live in, but not one in danger of imminent collapse on grounds of economic failure *per se*.<sup>26</sup>

In Lebowitz's view, the final collapse was envisaged by Marx to involve the revolutionary uprising of the proletariat, enlarged and enraged by the ever increasing severity of the crises. The proletariat would become increasingly aware of the inability of capitalism ever to overcome their deprivation and increasingly aware of their own revolutionary identity and destiny, Marx hoped, through his critical expositions on the capitalist economy. As Lebowitz puts it: "To the end, Marx remained the philosopher of *praxis*, of human action".<sup>27</sup>

What is clear from the above survey of interpretations of Marx's crisis thought is that he left considerable room for controversy due to the incomplete nature of his available analyses. The issues raised are significant because of the status of the crisis as the key to the destiny of capitalism. On present indications, though, it would seem that there is just not enough textual evidence available for any definitive interpretation of what Marx thought about crises to be formulated.

In the next Section of this Chapter, our intention is to provide a detailed account of Marx's crisis thought as it emerged in the critico-historical context of "Theories of surplus value". This will throw little

direct light upon the unresolved, complex issues raised above, but it will provide a more complete analysis of Marx's own views than is presently available.

### 13.2 CRITICO-HISTORICAL ASPECTS OF MARX'S THOUGHT ON THE CAPITALIST CRISIS.

Marx gave only limited attention to the crisis idea in "Theories of surplus value". It mainly emerged as a by-product of his critique of Ricardo's analysis of capital accumulation. An immediate focus in this critique was Ricardo's use of "Say's Law" and it was thus the realisation aspects of the crisis which received most attention in this context.

We saw in Chapter 11, Section 11.3 above that Marx was concerned to repudiate the implications of "Say's Law" for the capital accumulation process because it reflected a distortion of the nature of capitalism. For Ricardo, capital accumulation would proceed without market impediments through the automatic generation of an aggregate demand equivalent to supply in all periods. Any short-run, inter-sector disproportionality problems, manifested as *partial* overproduction, would be corrected by marginal reallocations of resources through competitive, profit maximising behaviour by capitalists. What had escaped Ricardo, in Marx's view, was the "anarchy" of uncoordinated production and demand and the mediation in this "anarchy" of money acting as a store of value. In the present Section of our study, we analyse the relationship of this critique to Marx's burgeoning thought on the capitalist crisis.

The crisis was for Marx a consequence of capitalism's drive for continuous expanded reproduction through capital accumulation. Marx summarised some of his key thoughts on the issue in the following passage:

... the whole process of accumulation in the first place resolves itself into *production on an expanding scale*, which on the one hand corresponds to the natural growth of the population, and on the other hand, forms an inherent basis for the phenomena which appear during *crises*. The criterion of this expansion of production

is *capital* itself, the existing level of the conditions of production and the unlimited desire of the capitalists to enrich themselves and to enlarge their capital, but by no means *consumption*, which from the outset is inhibited, since the majority of the population, the working people, can only expand their consumption within very narrow limits, whereas the demand for labour, although it grows *absolutely*, decreases *relatively*, to the same extent as capitalism develops. Moreover, all equalisations are *accidental* and although the proportion of capital employed in individual spheres is equalised by a continuous process, the continuity of this process itself equally presupposes the constant disproportion which it has continuously, often violently, to even out. (TSV, 11, 492.)

Here Marx emphasised that capital accumulation and the resulting growth of production, were not geared to consumption demand which was declining along with the relative demand for labour. Also, the inter-sector consistency of expanded reproduction was accidental. The probability was, then, that capitalism would experience continuous disruption due to under-consumption and disproportionality realisation problems.

There was, in this argument, a hint at the tendency for the disruptions to be continuously self-correcting. Marx did make it clear that the crisis he was discussing in the present context was a short-run, transitory phenomenon:

A distinction must be made here. When Adam Smith explains the fall in the rate of profit from an over-abundance of capital, an accumulation of capital, he is speaking of a *permanent* effect and this is wrong. As against this, the transitory over-abundance of capital, over-production and crises are something different. Permanent crises do not exist. (TSV, 11, 497n.)

This being so, some adjustment process which removed the transitory crisis would need to be invoked continuously. Marx did not elaborate upon this cyclical aspect of capitalism's "motion" any further at this stage.

As Marx noted in the passage quoted at the beginning of this Section, it was *expanded reproduction* which was at the root of the crisis. Thus production and circulation components would be involved in any analysis of the phenomenon. It was evident from this that Marx did not intend that either component should be viewed in isolation when considering the crisis. On this point, he wrote:

Now before we proceed further, the following must be said: The *possibility* of crisis, which became apparent in the *simple metamorphosis* of the commodity, is once more demonstrated, and further developed, by the disjunction between the (direct) process of production and the process of circulation. As soon as these processes do not merge smoothly into one another but become independent of one another, the crisis is there. (TSV, 11, 507.)

The problems for capital accumulation in production were immediately problems of circulation for only in the latter could the former be realised. This was the sense in which Marx argued the point in the following passage:

... the further development of the potential crisis has to be traced - the real crisis can only be deduced from the real movement of capitalist production, competition and credit - in so far as crisis arises out of the special aspects of capital which are *peculiar* to it as capital, and not merely comprised in its existence as commodity and money.

The mere (direct) *production process* of capital in itself, cannot add anything new in this context. In order to exist at all, its conditions are presupposed. The first section dealing with capital - the *direct* process of production - does not contribute any new element of crisis. Although it *does* contain such an element, because the production process implies appropriation and hence production of surplus value. But this cannot be shown when dealing with the production process itself, for the latter is not concerned with the *realisation* either of the reproduced value or of the surplus value.

This can only emerge in the *circulation process* which is in itself also a *process of reproduction*. (TSV, 11, 512-3.)

Here Marx posited the scope of the required explanation of the crisis phenomenon. He went on then to argue that in developing the analysis, the circulation phase of reproduction should be the required starting point in that it focusses upon the origin of capital accumulation, presumably here in an historical sense. But he immediately qualified this by noting that the object of analysis was developed capitalism and that any treatment of crisis in the context of circulation would be incomplete. Integration with the analysis of capital and profit at the production level, was a necessity. The crisis, then, involved the complex interaction between production and circulation and Marx concluded that:

The circulation process as a whole or the reproduction process of capital as a whole is the unity of its production phase and its circulation phase, so that it comprises both these processes or phases. Therein lies a further developed possibility or abstract form of crisis. The economists who deny crises consequently assert only the unity of these two phases. If they were only separate

without being a unity, then their unity could not be established by force and there could be no crisis. If they were only a unity without being separate, then no violent separation would be possible implying a crisis. Crisis is the forcible establishment of unity between elements that have become independent and the enforced separation from one another of elements which are essentially one. (*TSV*, 11, 513.)

Thus it was reiterated by Marx that the crisis was one transitory phase in an on-going *process* of the immanent interactions of production and circulation whose unity could not be preserved and, once split, had to be restored in order for capitalism to survive.

In "Theories of surplus value", Marx did not cover the scope of the crisis analysis argued above for the role of capital in production and the dynamics of the rate of profits and accumulation were not considered in any detail. Indeed, there was only one obtuse reference to the falling rate of profits as part of the crisis and in this the fall had a *causal* role. It was the case that with a lower rate of profits, the capitalists would not be able to meet their *fixed* charges for rent and interest. Presumably a crisis of bankruptcies would ensue (*TSV*, 11, 516). No *analysis* of the idea was provided.

In providing an analysis of the crisis, it was essential, Marx argued, to keep the *nature* of the capitalist system to the fore. It was his basic criticism of antecedent political economists that they had failed to do this and thus missed the *predisposition* of capitalism to fall into crisis. This was due, in part, he thought, to their lack of recognition that production was for exchange rather than directly for use and that exchange was not simply barter (*TSV*, 11, 495). The analytical expression of this failure was the adoption of "Say's Law" which served to obscure the distinct properties of the capitalist system which involved contradictions. These contradictions manifested themselves as crises. As Marx put it:

In order to prove that capitalist production cannot lead to general crises, all its conditions and distinct forms, all its principles and specific features - in short *capitalist production* itself - are denied. (*TSV*, 11, 501.)

And he argued the denial in the following specific terms:

In the crises of the world market, the contradictions and antagonisms of bourgeois production are strikingly revealed. Instead of investigating the nature of the conflicting elements which erupt in the catastrophe, the apologists content themselves with denying the catastrophe itself and insisting, in the face of their regular and periodic recurrence, that if production were carried on according to the textbooks, crises would never occur. Thus the apologetics consist in the falsification of the simplest economic relations, and particularly in clinging to the concept of unity in the face of contradiction. (*TSV*, 11, 500.)

For Marx, "... in reality crises exist because ... contradictions exist" (*TSV*, 11, 519). In avoiding formalising the contradictions of capitalism, the antecedent political economists did not face up to the realities of the system and failed to emphasise the analysis of the crisis.

Crises are thus reasoned out of existence here by forgetting or denying the first elements of capitalist production: the existence of the product as a commodity, the duplication of the commodity in commodity and money, the consequent separation which takes place in the exchange of commodities [between purchase and sale] and finally the relation of money or commodities to wage labour. (*TSV*, 11, 502.)

On the theme of products as commodities produced for sale, Marx recalled that for Adam Smith, there was an internal limit to the market's ability to absorb production. This potentially constrained the growth of "wealth". In order to avoid this, there was a need for "an external, colonial and world market" in which the excess domestic production which emerged as the economy grew could be realised. Ricardo had reacted against this on the basis of "Say's Law", arguing that the use of external markets was a matter of choice (*TSV*, 11, 525). For Ricardo, it was aggregate capital which limited both production *and* demand simultaneously. In the sense that only what was produced could be demanded this was true as Marx realised. But the issue had to be phrased in the opposite sense to be meaningful, i.e. "whether - on the basis of capitalist production - as much can and must be consumed as is produced" (*TSV*, 11, 520). In Marx's view, a significant causal element in the crisis explanation was the failure of aggregate market demand to expand in concert with production (*TSV*, 11, 524-5).

As Marx saw it, the expanded reproduction of the capitalist economy was founded upon the immanent contradiction that while a unity of sale and purchase was required they were in fact separate acts. The assertion of this independence was one root of the crisis and it was facilitated by money as a store of value. Thus:

No crisis can exist unless sale and purchase are separated from one another and come into conflict, or the contradictions contained in money as a means of payment actually come into play; crisis, therefore, cannot exist without manifesting itself at the same time in its simple form, as the contradiction between sale and purchase and the contradiction of money as a means of payment. But these are merely *forms*, general possibilities of crisis, and hence also forms, abstract forms, of actual crisis. (*TSV*, 11, 512, cf. 507-9.)

Moreover, this *potential* for crisis was exacerbated by Marx's understanding that the capitalist was *forced* to sell at the first stage in the circulation phase of the reproduction cycle. This raised the possibility that the sale may not realise the full value of the commodity, especially where the capitalist was in debt and forced to "sell in order to *pay*" (*TSV*, 11, 503). In Marx's interpretation, then:

A man who has produced, does not have the choice of selling or not selling. He must *sell*. In the crisis there arises the very situation in which he cannot sell or can only sell below the cost price or must even sell at a positive loss. (*TSV*, 11, 503.)

What concerned Marx further was that Ricardo treated money merely as a medium of exchange (*TSV*, 11, 501). This overlooked the role of money as an independent, generalised exchange value which could disrupt the barter paradigm upon which Ricardo had focussed.

Money is not only "the medium by which the exchange is effected"<sup>28</sup> ... , but at the same time the medium by which the exchange of product with product is divided into two acts, which are independent of each other, and separate in time and space. With Ricardo, however, this false conception of money is due to the fact that he concentrates exclusively on the *quantitative determination* of exchange value, namely, that it is equal to a definite quantity of labour time, forgetting on the other hand the *qualitative* characteristic, that individual labour must present itself *abstract, general social* labour only through its alienation. (*TSV*, 11, 504, cf. 505.)

Marx was also concerned with the problem of *partial* as against *general* overproduction of commodities. He noted that Ricardo had allowed



for the former as a *temporary* disequilibrium phenomenon but had ruled out the latter (*TSV*, 11, 529). Marx interpreted the rejection of general overproduction as implying that only the disproportionality between sectors in partial overproduction raised a problem for capitalist reproduction. Those who espoused "Say's Law" would argue that provided the scale of production, whatever it may be, involved appropriate inter-sector balances, there could be no general glut. The only problem, then, was *relative* overproduction, that is, overproduction that was not *universal* (*TSV*, 11, 530). Marx thought this argument to be "miserable sophistry" which had the essential weakness of presuming that the sale of *final* commodities was effectively barter and thus could not be impeded (*TSV*, 11, 532-3).

For Ricardo, also, a general overproduction of commodities would have implied an excess of capital. He explicitly rejected the possibility of such an excess and Marx quoted passages from the *Principles* to this effect. Included was a footnote in which Ricardo challenged an inconsistency in Say's argument in which he allowed that an excess supply of capital could lead to a reduction in the rate of interest on loans (*TSV*, 11, 494, 497).<sup>29</sup> As far as Marx was concerned, Ricardo was correct, for an excess of commodities and an excess of capital were two ways of looking at the same thing (*TSV*, 11, 533-5). Marx emphasised this when he criticised writers after Ricardo who attempted to preserve "Say's Law" while arguing that an excess supply of capital could emerge. As Marx put it:

What then would Ricardo have said to the stupidity of his successors, who deny overproduction in one form (as a general glut of commodities in the market) and who, not only admit its existence in another form, as overproduction of capital, plethora of capital, over-abundance of capital, but actually turn it into an essential point of their doctrine?

Not a single responsible economist of the post-Ricardian period denies the plethora of capital. On the contrary, all of them regard it as the cause of crises (in so far as they do not explain the latter by factors relating to credit). Therefore, they all admit over-production in one form but deny its existence in another. The only remaining question thus is: what is the relation between these two forms of overproduction, i.e., between the form in which

it is denied and the form in which it is asserted? (TSV, 11, 497.)

The question posed was not relevant for Ricardo, but very relevant for the writers referred to in the passage. They provided no answer.

Marx regarded Ricardo's denial of the crisis based upon general overproduction as an outcome of the era in which he wrote. The observed crises of the early nineteenth century Marx felt could be rationalised by various accidental events, e.g. poor harvests raising the price of corn and the effect of political events on market access (TSV, 11, 497). Later writers were, though, faced with a more systematic periodicity of crises and were forced to provide some explanation.

Later historical phenomena, especially the almost regular periodicity of crises on the world market, no longer permitted Ricardo's successors to deny the facts or to interpret them as accidental. Instead - apart from those who explain everything by credit, but then have to admit that they themselves are forced to presuppose the over-abundance of capital - they invented the nice distinction between *over-abundance of capital* and *overproduction*. (TSV, 11, 498.)

The denial of the overproduction of commodities left a critical inconsistency in these writers' attitude to the capitalist crisis, even though Marx recognised as an advance any analysis which gave emphasis to the role of capital in crises (TSV, 11, 499.)

In all of his crisis thought, Marx revealed an awareness of a significant methodological problem. It was clear to him that the *potential* for crises existed in the quantitative and qualitative *structural* requirements of capitalist expanded reproduction. Such potential, however, did not in itself provide a *sufficient* basis for the occurrence of crises which resulted from the *operations* of capitalism. Only at the most abstract level could such potential be utilised to infer the probable crisis outcome. In reality, the potential for crisis could not be used to *explain* the existence of an *actual* crisis. Marx made this explicit at several points in the present context, for example in the following passage where it was argued that it is invalid

... to explain the crises by these simple *possibilities* of crisis contained in the metamorphosis of commodities - such as the separation between purchase and sale. These factors which explain the possibility of crises, by no means explain their actual occurrence. They do not explain *why* the phases of the process come into such conflict that their inner unity can only assert itself through a crisis, through a violent process. This *separation* appears in the crisis; it is the elementary form of the crisis. To *explain* the crisis on the basis of this, its elementary form, is to explain the existence of the crisis by describing its most abstract form, that is to say, to explain the crisis by the crisis. (TSV, 11, 502, cf. 509, 512, 514, 515.)

A coherent theory of the crisis, then, required more analysis than that presented in "Theories of surplus value".

### 13.3 CONCLUDING REMARKS.

Our object in these concluding remarks is to provide a summary of the burgeoning ideas that Marx expressed in "Theories of surplus value". It is not appropriate, on this basis alone, to formulate anything definitive about the "final" state of his thought on the issue. Our remarks pertain only to what is evident in the context discussed, but it is our view that the ideas outlined provide a neglected, and potentially influential backdrop to the interpretative wrangles discussed in the first Section of this Chapter.

The analytical and explanatory content of Marx's crisis discussion in "Theories of surplus value" was minimal. The discussion was largely carried on at an abstract, impressionistic level. In spite of this, his work was full of insights into the essential nature of the phenomenon and the sort of framework of analysis that would be required adequately to comprehend it.

Marx rooted the crisis in the capitalists' drive for capital accumulation, through maximised surplus value generation, and the expanded reproduction process that this involved. This drive took place in the face of the contradictions inherent in the system and which constantly raised "barriers" to its progress. These "barriers" had to be transcended for the

system to be preserved.

The crisis was primarily a periodically occurring, short-run phenomenon in "Theories of surplus value". Marx gave no attention to its long-run implications in that context, except to make clear that by some means, not specified in any detail, the crisis effects would be overcome each time they appeared and the system would stagger from one recession to the next.

Methodologically, Marx was aware that while the *form* of the capital accumulation and expanded reproduction processes predisposed the capitalist system to crises, the *explanatory* analysis of the phenomenon could not proceed only at this *structural* level. He saw the need for the analysis to move from presenting the abstract possibility of the crisis to the concrete occurrence of it, although at this stage he achieved little in this direction.

The framework of the analysis would have to encompass both production and circulation in an integrated format which presented as the expanded reproduction process. As we read Marx's thoughts at this stage, the essential *causal* elements involved were the contradictions evoked in these processes. In production, capital accumulation generated a tendency for the rate of profits to fall and for the relative employment of labour to be reduced. In circulation, the separation of purchase and sale facilitated by money acting as a store of value and the complexity of inter-sector exchanges required to ensure reproduction meant that the process was unlikely to proceed without impediments.

In "Theories of surplus value", one of Marx's most immediate concerns was the critique of the ubiquitous "Say's Law". The invoking of this "Law" had enabled antecedent political economists to avoid the general glut potential of capitalism in their analyses. In so doing, Marx thought that they had portrayed a false image of the "laws of motion" of the system and he set out to overcome this. This had the effect of biasing his discussion

towards the realisation aspects of the crisis. The production based content of the crisis was relatively neglected in this context.

It was still evident, though, that Marx saw the production based falling rate of profits and the circulation based overproduction of commodities (and capital) as *interdependent outcomes* in the crisis analysis. Although the nature of this interdependence was not analysed by Marx, it is, in our view, not possible to read in the inferences any *causal* relationship between these aspects of the phenomenon. The specification of the relationship involved was left by Marx as one item among many on the agenda of future work to be done on crises.

## NOTES

1. *Political Economy and Capitalism*, second edition [1940], (Routledge and Kegan Paul, London, 1968), pp.80-1.
2. "Marx's Theory of the Crisis", p.109, emphasis original.
3. *Ten Great Economists*, p.47.
4. Dobb, *Political Economy and Capitalism*, pp.121-2; Schumpeter, *Ten Great Economists*, pp.50-2; and Sweezy, *The Theory of Capitalist Development*, pp.190-2.
5. "Controversial issues in Marxist Economic Theory", p.160. Cf. Phillip O'Hara's recent reiteration of this interpretation, "A Critical Analysis of Marx's Theory of Crisis", pp.4-5 and *passim*.
6. Cf. Howard and King, *The Political Economy of Marx*, p.210.
7. *The Theory of Capitalist Development*, pp.133-4.
8. *The Political Economy of Marx*, p.211.
9. *The Political Economy of Marx*, p.211.
10. *The Theory of Capitalist Development*, pp.145-6.
11. "The Formation of Marx's Theory of Crisis", p.1.
12. "The Formation of Marx's Theory of Crisis", pp.2, 10-11.
13. *The Theory of Capitalist Development*, p.146.
14. "The Formation of Marx's Theory of Crisis", p.6 n1, p.10 n1.
15. "Karl Marx and Say's Law", pp.627-8.
16. "The Marxian Theory of Crisis, Capital and the State", p.204. Cf. Cogoy, "The Fall of the Rate of Profit and the Theory of Accumulation: A Reply to Paul Sweezy", pp.52, 55-6.
17. Cogoy, "The Fall of the Rate of Profit and the Theory of Accumulation: A Reply to Paul Sweezy", p.64.
18. "The Marxian Theory of Crisis, Capital and the State", pp.208-9.
19. "Some Problems in the Theory of Capital Accumulation", p.49.
20. *The Political Economy of Marx*, p.212. Cf. the similar point made by Schroyer, "Marx's Theory of the Crisis", p.106 and by Itoh, "The Formation of Marx's Theory of Crisis", p.2.
21. *The Political Economy of Marx*, p.213, emphasis original.
22. "Some Problems in the Theory of Capital Accumulation", p.43.

23. "Marx's Falling Rate of Profit: A Dialectical View", p.247.
24. "Marx's *Grundrisse*: Vision of Capitalism's Creative Destruction", *Journal of Post Keynesian Economics*, 1:2, Winter 1978-79, p.153.
25. This interpretation is part of the argument of the following writers: Schroyer, "Marx's Theory of the Crisis", p.111; Yaffe, "The Marxian Theory of Crisis, Capital and the State", p.207; Jens Christiansen, "Marx and the Falling Rate of Profit", *American Economic Review: Papers and Proceedings*, 66:2, May 1976, pp.24-5; and Fine and Harris, "Controversial Issues in Marxist Economic Theory", p.169.
26. "Marx's *Grundrisse*: Vision of Capitalism's Creative Destruction", p.157, emphasis original. Cf. Bernice Shoul, "Karl Marx and Say's Law", p.626 n8.
27. "Marx's Falling Rate of Profit: A Dialectical View", p.250. Cf. Elliott's interpretations of the role of class identity and conflict in this process, "Marx's *Grundrisse*: Vision of Capitalism's Creative Destruction", pp.148, 159, 160.
28. Ricardo, *Works*, 1, 292.
29. *Works*, 1, 290, 290n, 296.

PART IV

EPILOGUE.



## CHAPTER 14

MARX'S POLITICAL ECONOMY PRIOR TO *CAPITAL*;

## A SUMMARY STATEMENT.

Our study traces the evolution of Marx's political economy prior to his writing of the main manuscripts that became *Capital*. His political economy involved a critical reformulation of the interpretation of capitalism on the basis of the theory of surplus value, the objective of his analyses being to reveal the immanently contradictory nature of the system and to explain the form of "motion" which flowed from these contradictions.

The roots of Marx's political economy were "Classical" and are to be found especially in the work of the Physiocrats, Adam Smith and David Ricardo. But the paradigm that he devised went beyond that of the "Classicals", especially in that it was framed around different issues and employed some different categories in a different methodology.

For Marx, *labour* was the basis of all social and economic activity. It was the source of all *value*, including the surplus value expropriated by the capitalist class. The capitalist system was in "motion" as an immediate consequence of the striving by the capitalists to enlarge their individual wealth through accumulating capital out of surplus value. But capital accumulation brought about a realisation of the contradictions of the system. These appeared as "barriers" to the development of capitalism, but it was inherent in the nature of the system to transcend these "barriers" as they emerged. Marx argued, though, that the crises associated with the periodic appearance of the "barriers" would become progressively worse. More and more people would be less than adequately sustained by the system. A revolutionary transcendence to "socialism" would ensue, with Marx's

political economy envisaged as acting as the catalyst by raising proletarian consciousness that capitalism could never provide for their needs and desires.

It is our view that three chronological stages may be defined in the evolution of Marx's pre-*Capital* political economy. Our study focusses upon the second and third of these stages.

First, Marx began reading political economy in the early 1840s. It revealed itself to him as the most fundamental component in understanding the anatomy and physiology of capitalist society. He wrote some early pieces as a consequence of this reading, but his expositions did not portray an independent analysis of the political economy of capitalism. His work showed some critical awareness of the limitations of received political economy as an interpretation of the *nature* of capitalism but he provided no alternative paradigm which explained his own interpretation of the system.

In the second stage, which we find to have begun with Marx's move to exile in London in 1849, his analysis took on a more independent stance. Unfortunately, we have very little knowledge of and no access to Marx's writings in London prior to 1857 except for some journal pieces. We surmise that his independent thought on political economy was burgeoning in this period because the *Grundrisse* of 1857-58 contained an outline of a profound new interpretation of the workings of capitalism. The critical origins of the revised paradigm were not discussed in detail in the manuscript so we can say little about the actual *formation* of the ideas revealed without further documentary evidence from the early 1850s (if such writings ever existed).

The *Grundrisse* is a crucial work in tracing the evolution of Marx's political economy. Our study provides a detailed analysis of its core themes and reveals their limitations in the light of Marx's evident objectives. We also consider the immediate extension of the *Grundrisse*'s

discussion of the commodity, value and money provided in the published *A Contribution to the Critique of Political Economy* of 1859. This was the first form of *presentation* of the ideas on these topics *investigated* in the *Grundrisse*.

The third stage which we identify in the evolution of Marx's political economy prior to *Capital* centres upon the "Theories of surplus value" part of the 1861-63 "Critique of Political Economy" manuscript. In this work, Marx took the core of analysis from the *Grundrisse* and the 1859 *Critique* and re-opened his critical assessment of antecedent political economy. There were, we argue, two main outcomes of this move. One was a reinforcement, perhaps a confirmation, of the superiority of Marx's own interpretation and analysis of capitalism over the main writers of the past, and the other was an increased analytical sophistication with which he was able to express his ideas having been required to work through them again. Our study shows that "Theories of surplus value" contained some important advances over the *Grundrisse* analyses.

The framework of analysis of capitalism which we find that Marx formulated through the second and third stages above involved some particular methodological premises. The most important of these in our view was the integration of production and circulation into a reproduction schema. This idea had been adumbrated by the Physiocrats but lost to political economy until Marx revived it. In this framework, the production process based on capital played a dominant role in the interpretation of capitalism in its social and economic dimensions. Both the *relations* of production, essentially between capital and labour, and the *form* of production, were crucial in the interpretation. The distribution process was also dictated by the production base and Marx's conceptualisation of the surplus value category, based upon the "Classical" idea of a surplus, the potential of which for comprehending capitalism had not so far been realised, proved to be the centrepiece of the *integrated* analysis of

production, circulation and distribution.

In the capitalist distribution process, the most essential division of produced value was between constant capital replacement, payment of wages based upon the value of labour power and the residual surplus value. The surplus value emerged through a process of exploitation. Through their sole possession of the means of production, the capitalist class was able to purchase labour power at its value and utilise it to produce and subsequently expropriate value in excess of that purchased. The workers who embodied the labour power had no choice but to submit to this exploitation for their *survival* depended upon them selling their only commodity, labour power.

Methodologically, Marx developed his political economy of capitalism at three *abstract* levels within the above framework. First, he analysed the commodity in the process of "simple circulation". The commodity represented the most essential *physical* outcome of capitalist production. Taking it as a given initially enabled Marx to analyse the most apparent expression of capitalism, viz. the market process of exchange and circulation facilitated by money. At the second level of analysis, production and circulation were considered in their unity in an aggregated, one-sector model of capitalism based on what Marx termed "capital-in-general". For this purpose, capital was assumed homogeneous in its composition. The third abstract level of Marx's methodology involved the extension of the essential principles revealed in the "capital-in-general" analysis to a multi-sector or "many-capitals" model in which competition between capitals became significant.

Marx found that the extension of his analysis into this third level led to some important changes *vis-a-vis* the analysis applied at the "capital-in-general" level. Allowing for more than one sector of production meant that a competitively determined general rate of profits had to be explained in spite of differences in the organic compositions of capital

in the various sectors and recognising that a uniform rate of surplus value would be established. For Marx, it was mandatory that the labour theory of value be preserved as the essential basis of the competitive outcome. His solution was to devise the price of production category. These modified values were such that when fully realised in circulation they would generate a uniform general rate of profits by means of an effective redistribution of immediately generated sectoral surplus values.

Marx's *analysis* of the articulation between values and prices of production remained incomplete prior to *Capital*. What he had established, though, was that the labour theory of value principle applied in observed market outcomes in the competitive capitalist economy. The labour theory of value was not only an empirical approximation in this context as Ricardo had inferred and in Marx's analysis the crucial role of *labour* in capitalism remained evident.

In admixture with these levels of analysis, we find another dimension of methodology. The ultimate objective of Marx's political economy was to provide a coherent understanding of the "laws of motion" of capitalism. In this endeavour, it was necessary for him *initially* to model the "static" characteristics of the system. Two facets were involved in this modelling: first, the logically coherent formulation of the articulation between value-surplus value and prices of production - profit, and secondly, the formulation of the *structure* of the capitalist reproduction schema. The immediate requirement was then to set both of these facets into the analysis of capitalism's "motion".

It was evident to Marx, we argue, that the "motion" of capitalism had several dimensions which existed as a unity. As a preliminary to an integrated analysis of these dimensions, Marx gave varying degrees of attention to them as separable objects of analysis. In this context, though, the articulation between the "capital-in-general" and "many-capitals" levels of analysis received little attention.

Marx recognised that the structural framework of the analysis of "motion" would be the expanded reproduction schema activated by capital accumulation. Within this framework, only limited analytical progress could be made at the level of "capital-in-general", although it was possible initially to separate off those effects of the contradictions inherent in capital accumulation which could be handled at this level of analysis. A primary contradiction of capital accumulation in production was the rising organic composition of capital which induced a competitive reduction in the general rate of profits in *value* terms (in spite of countervailing influences). A direct outcome of this process, Marx argued, was an increase in unemployment of labour, manifested as an increasing "reserve army of labour" and an increasing "immiserisation" of the working class. At the level of circulation, the main capitalist contradiction was between the use value and exchange value embodied in the commodity. Production based upon exchange value faced the probable impediment of insufficient aggregate demand facilitated by the separation of purchase and sale in a monetary economy. Money as a universal, homogeneous manifestation of exchange value could act as a store of value such that C-M did not have to be followed immediately by M-C. In some way and in some form that remained unclear in Marx's pre-*Capital* political economy, these separable elements of "motion" were to be integrated to form the basis of an explanation of the capitalist crisis.

Now all of this could be handled with "capital-in-general" as the root category. The analysis had to proceed beyond this for two reasons. First, Marx was aware that the most immediate basis for explaining capitalist *phenomena* was the price of production - profit domain of competition between capitals in the different sectors of production. Secondly, one of the main analytical features of the expanded reproduction framework was that it revealed the complex qualitative and quantitative interdependencies between sectors of production that had to be met if

capital accumulation was to proceed without any impediments arising from inter-sector disproportionalities. This issue was not evident at all at the level of "capital-in-general".

Thus Marx realised that by shifting his analysis to the level of "many-capitals" he would be able to reflect more adequately the complexities of capitalism's "motion". In so doing, though, it is evident that the increased degree of analytical sophistication required eluded him. The "many-capitals" level of analysis did not appear in his analyses of "motion" except in the actual exposition of the sectoral interdependencies of the reproduction process. Marx's analysis of the "laws of motion" of capitalism remained in *value* terms.

It is the most significant finding of our study that in drafting out the *magnum opus*, *Capital*, Marx did little which altered all of this. Any exposition of the main themes of *Capital* would reveal a reproduction and elaboration of the above paradigm. The *analytical* advances made by Marx in his "final" work relative to the pre-*Capital* writings were marginal. Most of the important limitations noted above remained even though the analysis became progressively more sophisticated.

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