

Use, Value and Exchange: The Misinterpretation of Marx

STEVE KEEN

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2. Preface

The original focus of my academic career was the misinterpretation of Marx by his supposed followers. This thesis, which was written in 1989-90 for my Masters degree at the University of New South Wales, led to my first two academic papers, both published in the *Journal of the History of Economic Thought* in 1993.¹ I subsequently moved on to other topics—notably modelling Minsky’s *Financial Instability Hypothesis*²—but the ideas in this thesis never left my mind. In fact, they formed the philosophical foundation for all of my subsequent work.

When I found myself, by sheer serendipity,³ in Marx’s hometown of Trier to receive a prize for my academic contributions—the [Friede Gard Prize for Sustainable Economics](https://www.umwelt-campus.de/friede-gard-preis)⁴—I felt that it was time I made this thesis both more accessible and more presentable.

It has been posted on my websites for some years now, but the formatting was poor: I had originally written the thesis in the brilliant outline processor *Framework*, and formatted it using the equally brilliant desktop publishing program *Ventura Publisher*. Both of these programs were purchased by companies that truly didn’t understand their technology—Ashton-Tate in the case of *Framework*, and Corel Draw in the case of *Ventura Publisher*—and the programs eventually died. I was forced to port the text to Microsoft Word, and the porting process scrambled the footnotes (of which there are many—a total of 451 in the original, and 471 in this document).

I had just ignored this problem and lived with the resulting somewhat unsatisfactory presentation. But now that I was in Marx’s hometown, I felt it was time to produce something that gave proper recognition to one of the greatest—but also one of the most flawed, and certainly the most misinterpreted—thinkers in the history of economics.

I have also appended a paper which shows how Marx’s dialectics can be the methodological foundation for Post-Keynesian economics—“A Marx for Post-Keynesians”. There’s a tale as to why this paper was never published, but I’ll leave that as a mystery for now.

¹ Keen, S. (1993). "The Misinterpretation of Marx's Theory of Value." *Journal of the History of Economic Thought* 15(2): 282-300; Keen, S. (1993). "Use-Value, Exchange Value, and the Demise of Marx's Labor Theory of Value." *Journal of the History of Economic Thought* 15(1): 107-121.

² Keen, S. (1995). "Finance and Economic Breakdown: Modeling Minsky's 'Financial Instability Hypothesis.'" *Journal of Post Keynesian Economics* 17(4): 607-635.

³ The [Friede Gard Prize for Sustainable Economics](https://www.umwelt-campus.de/friede-gard-preis) (<https://www.umwelt-campus.de/friede-gard-preis>) is awarded annually at the Trier University of Applied Sciences, but the fact that this is Marx’s home town is sheer coincidence—since the founders of the prize happen to live nearby.

⁴ <https://www.umwelt-campus.de/campus/aktuelles/news/news-details/friede-gard-preis-2022>.

3. Abstract

The concept of “use-value” and the question of the source of value in Marx’s economics are analysed. The traditional interpretation of Marx, which argues that use-value plays no role in his economics, is detailed. The evidence on Marx’s employment of the concept is investigated. It is concluded that use-value was an integral part of Marx’s analysis of the commodity, with the dialectic between use-value and exchange value being the primary method by which Marx derived the source of surplus value. The traditional interpretation is criticised in the light of this evidence.

Post-Grundrisse attempts to generalise Marx’s analysis of commodities are discussed. This analysis is extended to the question of the value productivity of non-labour inputs to production. The conclusion is drawn that labour power is not the only source of value, and that commodities in general are the source of value and surplus value. Marx’s logical errors, which led to his contrary result, are examined.

Arguments that Marx’s analysis of commodities should be dispensed with, and a new labour theory of value erected on the basis of the non-commodity aspects of labour, are considered and rejected. It is instead argued that Marxian economics should be reconstructed on the basis of Marx’s dialectical analysis of commodities, the assertion that labour power is the only source of value should be abandoned, and a dialectic of labour developed as a fundamental tool of Marxian analysis. Some ramifications of this approach for Marxian economics—notably the elimination of the transformation problem and the tendency of the rate of profit to fall—are noted.

4. Synopsis

This thesis considers the concept of “use-value” and the question of the source of value in Marx’s economics. The traditional interpretation of Marx, which argues that use-value plays no role in his economics, is detailed. The development of this view is canvassed, from Böhm-Bawerk, the first major critic of Marx’s analysis in Volume III of *Capital*, and Hilferding, his first major defender, to Dobb.

Rosdolsky’s critique of this interpretation is outlined. The evidence on the use of the concept of use-value by Marx is investigated, taking his major economic works in the sequence in which they were published. The passage in which Marx appears to have first considered the role of use-value in his economics is examined. It is concluded that Rosdolsky’s critique is well founded, and that use-value was an integral part of Marx’s dialectical analysis of the commodity. In particular, it is shown that the dialectic between use-value and exchange value was the primary method by which Marx derived the source of surplus value.

The traditional interpretation is re-evaluated in the light of this evidence, and reasons are given for the failure of Böhm-Bawerk, Hilferding, Sweezy, Meek and Dobb to comprehend Marx’s approach to use-value. Sweezy is shown to have consciously omitted reference to the concept in a key quote from *Capital*, as well as having ignored surrounding references to its use in the *Contribution to the Critique of Political Economy* and *Marginal Notes on Adolph Wagner*.

The issue of the reduction of skilled labour to unskilled labour is investigated as an illustration of the application of Marx’s dialectic of the commodity. It is shown that while Hilferding asserted that use-value plays no role in Marx’s economics, he properly employed the concept in his counter to Böhm-Bawerk’s criticism of Marx on skilled labour. His treatment is contrasted to that of Sweezy and Meek, who follow the traditional approach and consequently derive unrealistic ratios between the productivity of skilled labour and unskilled.

Since Rosdolsky, several Marxists have made attempts to employ Marx’s dialectic of the commodity in their analysis. Mandel’s *The Formation of the Economic Thought of Karl Marx* and Nicolaus’ introduction to the *Grundrisse* are outlined as examples of the accurate application of the dialectic to the issue of the value productivity of labour. However, Desai’s attempt to generalise Marx’s dialectic of the commodity is examined and shown to be faulty, in that it contradicts all of the fundamental propositions which can be distilled out of Marx’s analysis of the commodity.

These propositions are applied to the question of the value productivity of non-labour inputs to production, and the conclusion drawn that such inputs are productive of value in the sense denied by Marx: i.e., non-labour inputs are potential sources of surplus value. The conclusion is drawn that commodities in general are the source of surplus value, and

that Marx must therefore have made logical errors to derive the result that labour power is the only source of value. The major errors, in the *Grundrisse* and *Capital*, are discussed, while the solitary correct application of his dialectic to the value productivity of machinery is noted.

The consequence that Marx's analysis of commodities portrays all commodities as sources of value has led Bowles and Gintis to recommend that since Marx's analysis of commodities is in conflict with the assertion that labour power is the only source of value, his analysis of commodities should be abandoned, and a new labour theory of value erected on the basis of the non-commodity aspects of labour. It is argued that while this approach has valuable insights on the nature of labour, these insights can best be treated by extending Marx's use of the dialectic to include a dialectic of labour.

On the other hand, Bose has argued that Marx's treatment of commodities and of labour should be abandoned in favour of "capital-based" axioms. He takes this position because he believes that Marx's analysis is incompatible with the proposition that commodities in general are the source of value. This belief is shown to be a result of accepting the traditional interpretation of Marx. However, properly applied, Marx's axioms of commodities reach the same conclusion as Bose's capital axioms, and with far simpler logic.

Several ramifications of the correct application of Marx's dialectical analysis are noted in conclusion. These are:

1. that the definition of value is much wider than that given by Marx, while the wage is best treated as having two components, one reflecting the value of labour, the other reflecting a share in the surplus;
2. that there is no systematic reason why values should diverge from prices on the basis of differences in the organic composition of capital. Hence there is no technical problem of the transformation of values into prices, and Marxian focus on this non-problem has hindered development of the dynamic issue of the realisation of surplus value into profit. The tendency of the rate of profit to fall as formulated by Marx is also a non-problem, since it depends upon an increasing organic composition of capital and labour power being the only source of value;
3. that Marxists should instead develop the concept of the realisation problem, the difficulty of converting surplus value into monetary profit;
4. that while the transformation problem is eliminated as a reason for the divergence of price from value, the existence of contradictions between production and consumption provides a solid reason why value and price will not normally be the same;
5. that a dialectic of labour should be developed as a sound foundation for analysing class struggle over the distribution of the surplus within capitalism;
6. lastly, that the ideological power of Marxian economics is necessarily altered by

these revisions. However while Marxism ceases to be a doctrine which is automatically supportive of the overthrow of capitalism, it remains critical of capitalism, and supportive of class struggle over the division of the surplus.

5. Preface

The contention that labour power is the only source of value, and hence of surplus and profit, has been one of the hallmarks distinguishing Marxist economics from neoclassical economics for the last century. Since Sraffa's *The Production Of Commodities By Means Of Commodities*,⁵ it has also distinguished Marxist economics from its companions in the surplus tradition. Generally, the Sraffian school has not concerned itself with the source of surplus or the meaning of value, preferring simply to assert that surplus exists and proceeding to analyse the capitalist economy on that basis. The application of the tools of this school to some of the dilemmas of Marxism, notably the transformation problem, has caused significant schisms within Marxist thought. One camp now argues that the labour theory of value should be expunged from Marxian analysis, while another argues that the concept and analysis of value are fundamental.

While I subscribe to the belief that value is fundamental, I argue that its definition and derivation by Marx and his followers are flawed. Marx used two methods to derive the source of value, a general, dialectical analysis of commodities, and a particular analysis of the commodity labour power. The general analysis was based on a classic dialectic between use-value and exchange value. The labour power analysis was a particular elucidation of the general dialectical method, but could be read as a technique of proof by exclusion, as it was characterised and criticised by Böhm-Bawerk.⁶ His followers (until the publication of Rosdolsky's work)⁷ used only the secondary, particular analysis, and in so doing failed to acknowledge the general analysis, which Marx emphatically regarded as a major, if not the major, fulcrum of his economic theories.

On numerous occasions throughout his major economic manuscripts,⁸ Marx used his general dialectical analysis of commodities to correctly derive the conclusion that labour power is a source of value. He only once properly applied this analysis to the question of whether other non-labour commodity inputs to production could be a source of value, and in general appeared to believe that his method on this issue was compatible with his method of commodity analysis. In this he was profoundly mistaken. While there is no conflict between Marx's general analysis of commodities and his particular analysis of labour power, there is a yawning contradiction between the former and his assertion (supposedly

⁵ Sraffa, P., *The Production of Commodities by Means of Commodities: Prelude to a Critique of Economic Theory*, Cambridge University Press, Cambridge, 1960.

⁶ Böhm-Bawerk, *Karl Marx and the Close of his System*, Sweezy, P.M. (ed.), Orion, 1949, New York.

⁷ Rosdolsky, R. *The Making of Marx's Capital*, Pluto Press, London, 1977, especially Chapter 3. However, many Marxists continued to ignore Marx's analysis of commodities after Rosdolsky. See e.g., Shaikh, A., "Neo-Ricardian Economics: A Wealth of Algebra, a Poverty of Theory", *Review of Radical Political Economics*, Vol 14 No. 2, 1982, pp. 67-83, McFarlane, B. and Beresford, M.A *Manual of Political Economy*, Karrel, Quezon City, 1985, pp. 28-32, Howard, M.C. and King, J.E. *The Political Economy of Marx*, Longman, London, 1985 (though the last mentioned do acknowledge tangentially that Marx did use the dichotomy between the use-value and exchange value of labour power to derive surplus; *Ibid* pp. 96, 126).

⁸ I take these to be, in order of writing, *The Grundrisse*, the *Contribution to the Critique of Political Economy*, *Theories of Surplus Value*, and *Capital*.

based on the “unique” characteristics of labour power) that non-labour commodity inputs to production simply transfer to the product the labour embodied in them. Properly applied, his dialectical method establishes that all commodity inputs to production can generate a surplus for the capitalist, contradicting his view that labour power is the only source of value.⁹ As a corollary, the definition of value which is derived from these axioms is necessarily wider than the definition tendered by Marx.

Unless we are willing to accept logical contradictions in the same manner that lawyers accept distinctions, there are thus only two courses of action. Either the analysis of commodities, or the belief that labour power is the only source of value, must be discarded. Bowles and Gintis have argued for the former course,¹⁰ implicitly following what Bose calls the “theological tendency to go so strictly by what Marx said as to adhere to the rule: ‘where logic contradicts Marx’s words, go by his words’”.¹¹ I argue for the latter, that since Marx’s logic contradicts his words on the question of the source of value, the logic must be developed and the words jettisoned.

⁹ While Sraffian technical analysis has centred on the issue of the transformation of values into prices (See Desai, M. , “The Transformation Problem”, *Journal of Economic Surveys*, Volume 2, No. 4, 1988, p. 295, for a passable summary of the transformation problem debate from a moderate Marxist perspective—though it omits several important references, including Joan Robinson's Essay and the contributions by Wolff et al.), the crux of the Sraffian objection has always been the impossibility of attributing all surplus creation to labour. A corollary of the correct application of Marx's axioms is thus that there is no fundamental conflict between Marxist and Sraffian logic.

¹⁰ Gintis, H., and Bowles, S. , “Structure and Practice in the Labor Theory of Value”, *Review of Radical Political Economics*, Vol 12 No. 4, 1981, pp. 1-25.

¹¹ Bose, A. *Marx on Exploitation And Inequality*, Oxford University Press, Delhi, 1980, p. x.

6. The Traditional interpretation of Marx

Early Marx

The Labour Theory of Value

Marx did not spring immediately to the labour theory of value. As Mandel observes, his process of conversion began with his study of the English classical political economists, and the concept did not come easily:

“The best way to understand something is to begin by not understanding it. This time-honoured popular saying is reflected the attitude of the young Marx adopted toward the labour theory of value.”¹²

This is evident in the *Economic and Philosophic Manuscripts of 1844*, where Marx comments when discussing Smith that “The capitalist thus makes a profit, first, on the wages, and secondly, on the raw materials advanced to him.”¹³ However he also says later that “The greater the human share in a commodity, the greater the profit of dead capital”,¹⁴ which is an assertion that labour is at least the major source of profit.

Further on in the Manuscripts, while still being critical of political economy for its characterisation of man as a commodity, Marx has sharpened his focus on labour:

“This political economy begins by seeming to acknowledge man”; however, “it must throw aside this hypocrisy in the course of its further development and come out in its complete cynicism. And this it does... by developing the idea of labour much more one-sidedly, and therefore more sharply and more consistently, as the sole essence of wealth; by proving the implications of this theory to be anti-human in character, in contrast to the other, original approach.”¹⁵

Despite the criticism of political economy, this statement shows his developing acceptance of the idea that labour is the only source of wealth, a position which wasn't apparent in the early part of the manuscripts. Further exposure led to Marx becoming the most strident champion of the labour theory of value, developing it one stage further than had his predecessor Ricardo, to use it to explain the source of surplus. By the time of *Wage Labour and Capital*,¹⁶ Marx had developed the explanation that labour is paid its cost of subsistence, yet its work extends beyond the time required to reproduce those means of

¹² Mandel, *The Formation of the Economic Thought of Karl Marx*, NLB, London, 1971, p. 40.

¹³ Marx, K. *Economic and Philosophical Manuscripts of 1844*, Struik, D. (ed.), International Publishers, New York, 1964.

¹⁴ Marx, K. *Economic and Philosophical Manuscripts of 1844*, Struik, D. (ed.), International Publishers, New York, 1964.

¹⁵ *Ibid*, p. 81.

¹⁶ *Ibid*, p. 129.

¹⁷ Engels notes that this work was published as a series of articles in the *Neue Rheinische Zeitung*, from April 4th 1849, and are based on lectures given by Marx in 1847 at the German Workers' Society in Brussels. Marx, K., “Wage labour and capital” in *Marx-Engels Collected Works*, Volume I, Foreign Languages Publishing House, Moscow, 1951, p. 66.

subsistence. He later formalised this using the distinction between labour power, the ability to perform work, and labour itself.¹⁷ Capitalists purchase labour power by paying for its cost of production, and receive the far greater quantity of its ability to produce value:

“The worker receives means of subsistence in exchange for his labour-power, but the capitalist receives in exchange for his means of subsistence labour, the productive activity of the worker, the creative power whereby the worker not only replaces what he consumes but gives to the accumulated labour a greater value than it previously possessed.”¹⁸

The Concept of Use-value

The concept of use-value was also undergoing development at the early stage of Marx’s introduction to political economy, and like the labour theory of value, Marx initial understanding was quite different to the final. In the course of a powerful insight into the conflict between Ricardo and Malthus, Marx expressed an opinion which is diametrically opposed to the labour theory of value—that use determines value. Having criticised Ricardo and Say for forgetting in the debate over thrift versus luxury that “there would be no production without consumption”, he continues:

“that it is use that determines a thing’s value, and that fashion determines use.... Both sides forget that extravagance and thrift, luxury and privation, wealth and poverty are equal.”¹⁹

By the time he came to part company with Proudhon, Marx had imbibed the classical attitude that use-value plays no role in determining value. However he also was aware that use-value was a necessary component to determine the relative demand for a commodity, though not its value. Marx’s critique of Proudhon’s reasoning is an interesting portent of his later, developed approach to the distinction between use-value and exchange value. While he rightly dismisses Proudhon’s attempt at dialectics, it could well be that Proudhon lay the seed which later germinated in the *Grundrisse*:

““The economists have very well explained the double character of value; but what they have not set out with equal clearness if its contradictory nature;... It is a small matter to have signalised in utility-value and exchange value this astonishing contrast, in which the economists are accustomed to seeing nothing but the most simple matter; it is necessary to show how this pretended simplicity hides a profound mystery which it is our duty to penetrate... In technical terms use-value and exchange value are in inverse ratio the one to the other.””²⁰

¹⁷ Engels observes that this distinction was not part of Marx's method at the time of *Wage Labour and Capital*; however, Engels edited this work to include the expression labour power in a re-issue intended to educate workers. Unfortunately, the editors of the Collected Works reproduced this adulterated pamphlet version rather than the original, which obscures the development of Marx's thought on this issue.

¹⁸ *Economic and Philosophic Manuscripts*, op. cit., p. 151. Boldface emphasis added.

¹⁹ *Economic and Philosophic Manuscripts*, op. cit., p. 151. Boldface emphasis added.

²⁰ Marx, K. *The Poverty of Philosophy*, Charles Kerr, Chicago (No date given. By its introduction, the edition used predated the publication of Volume II of *Capital* in English.), citing Proudhon, p. 37.

The gist of Proudhon's attempt at a Fichtean dialectic, according to Marx, was that things of the lowest utility have the highest value, while those with the highest utility have the lowest value, and labour value provides a reconciliation between these two extremes. Marx basically dismissed this firstly as ignoring the role of demand in determining scarcity, secondly as dressing up in complicated terms the "precise, clear, and simple language of Ricardo ... in order to arrive at the determination of relative value by labour-time.":

"Ricardo shows us the real movement of bourgeois production which constitutes value. M. Proudhon makes abstraction of this movement, 'struggles' to invent new processes in order to regulate the world according to a professedly new formula which is only the theoretical expression of the real existing movement so well propounded by Ricardo.... The determination of value by labour-time is for Ricardo the law of exchange value; for M. Proudhon it is the synthesis of use-value and exchange value."²¹

Thus at this stage Marx admits that use-value is a determinant of demand, but the concept plays no active role in his logic.²² He is firmly of the opinion that all which is necessary to form the foundation of political economy can be found in Ricardo's analysis of exchange value.

Use-value

Marx, like Smith and Ricardo before him, acknowledged that "Every commodity, has a twofold aspect —use-value and exchange value".²³ Smith had argued that "The word VALUE ... has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods... The one may be called 'value in use', the other, 'value in exchange'".²⁴ Ricardo quoted this approvingly in the opening sentence of his *Principles*.²⁵

Use-value in the classical sense is the objective function of a good or service, which depends on the application made of the good by the purchaser, but not on the purchaser's subjective valuation of the good. This contrasts with utility in neoclassical economics, where the utility of a good is its subjective valuation, which necessarily can vary from individual to individual. The classical concept of utility could also be described as "concrete", as opposed to the "abstract" utility of neoclassical economics, differing in the same sense as do Marx's concepts of concrete and abstract labour. The former pertains to a single commodity and is in no way additive across commodities. When Ricardo says that "If two sacks [of corn] be of the value that one was of before, he [the seller] ... gets ... double the quantity of what Adam Smith calls value in use, but not double the quantity of

²¹ Ibid, pp. 52-53. Emphases added.

²² Smith, A. *The Wealth of Nations*, edited by M'ulloch, J.R., Adam and Charles Black, Edinburgh, Fourth Edition, 1838, p. 13.

²³ Ibid, pp. 52-53. Emphases added.

²⁴ Smith, A. *The Wealth of Nations*, edited by M'ulloch, J.R., Adam and Charles Black, Edinburgh, Fourth Edition, 1838, p. 13.

²⁵ Ricardo, D. *Principles of Political Economy and Taxation*, 3rd Edition, George Bell, London, 1891, p. 5.

value”,²⁶ what he means is that the seller gets twice as many sacks, not twice the abstract satisfaction. In contrast, the neoclassical concept of utility pertains to commodities in general, can be treated as additive, and is the substance which economic agents strive to maximise.

In the classical scheme, the goal of the capitalist, the primary economic agent in capitalism,²⁷ is to maximise exchange value, and the use-value of commodities is irrelevant in this task, apart from being a pre-requisite to exchange. Both Smith and Ricardo went on to dismiss use-value as a potential explanation for the exchange rate between commodities, and thereafter ceased to make mention of the concept (save as a prerequisite to exchange). Smith notes that “The things which have the greatest value in use have frequently little or no value in exchange”,²⁸ while Ricardo concluded that “Utility then is not the measure of exchangeable value, although it is absolutely essential to it.”²⁹ Much of this attitude derived from their focus on long run costs, with Ricardo arguing that “It is the cost of production which must ultimately regulate the price of commodities, and not, as has been often said, the proportion between supply and demand.”³⁰ The traditional interpretation of Marx argues that he likewise drew this distinction simply to exclude use-value from any role in political economy. Sweezy, for example, reasoned that “Use-value is an expression of a certain relation between the consumer and the object consumed. Political economy, on the other hand, is a social science of the relations between people. It follows that ‘use-value as such lies outside the sphere of investigation of political economy’”.³¹ This has been the conventional Marxist position since Hilferding, whose argument Sweezy simply paraphrased.³²

This analysis limits use-value to being a pre-requisite to exchange: obviously for a good to be exchangeable, it must have some use-value to a potential purchaser (while it is normally a non-use-value for its producer). However this is where its role in economic analysis begins and ends; certainly, according to this perspective, it plays no part in divining the meaning of value or the source of surplus value.

Value

Marx, as a classical economist, believed in an absolute rather than a relative standard of value. This absolute standard was the basis of the rate of exchange between commodities, the level around which actual prices fluctuated.

²⁶ Ibid, p. 265.

²⁷ in Marx's sense of being the dominant agent.

²⁸ Smith, op. cit., p. 13.

²⁹ in Marx's sense of being the dominant agent.

³⁰ Ibid, p. 373. He continues, “Diminish the cost of production of hats, and their price will ultimately fall to their new natural price, although the demand should be doubled, trebled, or quadrupled. Diminish the cost of subsistence of men, by diminishing the natural price of food or clothing, by which life is sustained, and wages will ultimately fall, notwithstanding that the demand for labourers may very greatly increase.”

³¹ Sweezy, P.M. *The Theory of Capitalist Development*, Modern Reader Paperbacks, 1942, New York, p. 26, quoting Marx, K. *Contribution to the Critique of Political Economy*, p. 28.

³² Hilferding, R. Böhm-Bawerk's Criticism of Marx in *Karl Marx and the Close of his System*, Sweezy, P.M. (ed.), Orion, 1949, New York, p. 130.

Smith effectively defined value as the effort involved in production: “The real price of every thing ... is the toil and trouble of acquiring it.”³³ The labour of workers was the major component of effort, and prior to the accumulation of capital, commodities would have exchanged in proportion to the amount of labour it took to produce them. However when accumulation of capital was well advanced, “something must be given for the profits”, and while Smith frequently spoke as if labour was the only source of value, it was clear that exchange could no longer be proportional to the labour of the direct producers.

There were also many occasions where Smith attributed the creation of exchange value to forces other than labour. Marx frequently derided Smith for expressions such as “Not only his labouring servants, but his labouring cattle, are productive labourers”, and for attributing rent to “those powers of Nature, the use of which the landlord lends to the farmer.”³⁴ While from Marx’s perspective this was sheer folly, it can be argued that Smith simply defined both labour and value more widely than did Marx. Labour meant work, and cattle definitely worked.³⁵

Ricardo, like Smith, equated value to effort in production, but appeared more inclined than Smith to equate effort to labour: “everything rises or falls in value, in proportion to the facility or difficulty of producing it, or, in other words, in proportion to the quantity of labour employed on its production.”³⁶ He had more occasion than Smith to defend the notion of an absolute standard of value as the foundation of the actual exchange rate between commodities, since his foil Malthus (amongst others) supported the concept of relative value only, based on the interplay of supply and demand. Citing Smith’s statement concerning the determination of value by labour-time in that “early and rude state of society” prior to the accumulation of capital and the alienation of land, Ricardo declared: “That this is really the foundation of the exchangeable value of all things ... is a doctrine of the utmost importance in Political Economy”.³⁷

³³ Smith, *op. cit.*, pp. 13-14. This early clarity was later submerged in his confusion of the labour contained and labour commanded measures of value.
¹bid, p. 22.

³⁴ *Ibid.*, p. 161, both quotes. They clearly concern the creation of exchangeable value, and not merely use-value. See Marx, K. *Grundrisse*, Penguin, Middlesex, 1973, p. 328.

³⁵ However Smith and Marx were at one on the question of the “labour” of the capitalist. “(T)he owner of this capital, though he is thus [by a clerk] discharged of almost all labour, still expects that his profits should bear a regular proportion to his capital. In the price of commodities, therefore, the profits of stock constitute a component part altogether different from the wages of labour, and regulated by quite different principles.” (Smith, *op. cit.*, p. 23.)

³⁶ Ricardo, *op. cit.*, p. 258. However as Steedman points out, this appearance was largely a product of Ricardo’s inconsistent use of language, rather than intellectual lapses (Steedman, I., “Marx on Ricardo”, in Bradley, I. and Howard, M. *Classical and Marxian Political Economy*, Macmillan. London, 1982.). It can also be seen as the result of his settling an issue early in the piece—in this case, that the labour embodied in a commodity includes the labour necessary to produce the machinery, as well as the direct labour—and thereafter using the word labour to implicitly include the labour embodied in machinery and raw materials. See Ricardo, *op. cit.*, pp. 18-20; for example, “Economy in the use of labour never fails to reduce the relative value of a commodity, whether the saving be in the labour necessary to the manufacture of the commodity itself, or in that necessary to the formation of the capital.”

³⁷ Ricardo, D., *op. cit.*, pp. 7-8.

Ricardo clearly used embodied labour as the measure of value, but did not elucidate, as had Smith (however inconsistently), what the sources of value were. Meek argues that Ricardo displayed an increasing tendency with time to identify absolute value with the labour required to produce a commodity.³⁸ Equally, Ricardo's editor Gonner could comment on early socialist interpreters of Ricardo that "When he speaks of labour with a capital [letter], including under it the exertion of capital, they speak of labour with a small initial, meaning plain toil, often plain manual toil".³⁹

Where Smith and Ricardo were open to interpretation, Marx was uncompromising: labour was both the measure and the source of value, value was the amount of socially necessary labour time embodied in the production of a commodity, and this absolute value was the basis of relative exchange value.

Exchange Value

Marx was very particular about the distinction between value, as the absolute worth of a commodity, and exchange value, as the relative price that commodity would obtain in exchange with another commodity. Criticising Wagner for identifying labour as the substance of exchange value (rather than of value), Marx comments that "Nowhere do I speak of 'the common social substance of exchange value' but [I] say, rather, that exchange values ... represent something common to them [commodities] which is wholly independent 'of their use-values'".⁴⁰

The relative concept of exchange value, the ratio at which goods exchange (whether measured in labour-time or, when "posited as money"),⁴¹ was thus based on value, but could diverge for many reasons. It is the appearance of value, but "the mere form of appearance is not its proper content".⁴² As a corollary, if absolute value was to be the basis of exchange value, then the class standing of the parties to a transaction could not affect the transaction itself: "A worker who buys commodities for 3s appears to the seller in the same fashion ... as the king who does the same".⁴³

Thus value was the basis on which commodities were exchanged, and the acknowledged existence of surplus value had to be explained on the basis of the exchange of equivalents:

"To explain, therefore, the general nature of profits, you must start from the theorem that, on the average, commodities are sold at their real values, and that profits are derived by selling them at their values, that is, in proportion to the quantity of labour realized in them. If you cannot explain profit upon this

³⁸ Meek, R.L., *Studies in the Labour Theory Of Value*, Lawrence and Wishart, London, 1956, pp. 110-16.

³⁹ Ricardo, *op. cit.*, p. xlvi. Emphasis added. See Steedman, *op. cit.*, for a contrary judgment to Meek's on this subject.

⁴⁰ Marx, K. *Notes on Adolph Wagner*, in Carver, T. *Karl Marx: Texts on Method*, Basil Blackwell, Oxford, 1975, p. 183.

⁴¹ *Grundrisse*, *op. cit.*, p. 189.

⁴² *Grundrisse*, *op. cit.*, p. 189.

⁴³ *Ibid*, p. 198.

supposition, you cannot explain it at all”.⁴⁴

Surplus Value

According to the traditional interpretation of Marx, he locates the source of surplus using the value aspect of the commodity in conjunction with the particular characteristics of the commodity labour power. To quote Sweezy, “In order to discover the origin of surplus value it is first necessary to analyse the value of the commodity labour power”.⁴⁵ The method of investigation is quite simple and appealing; even Joan Robinson, who generally can see no need for the labour theory, observes that this analysis is an excellent pedagogical device to establish the existence of exploitation under capitalism.⁴⁶

The analysis begins with commodity production, which is an economic system where goods are produced not for their use-value, but for exchange. Capitalism is the stage of commodity production where the ability to work itself has become a commodity, because the direct producers of commodities have been dispossessed of the means of production, and therefore must sell their labouring ability to others. As a commodity, the value of labour power is determined like that of any other commodity, by the labour-time necessary for its production. The capitalist purchaser of labour power pays for labour power at its value, and this reduces itself to “the value of the means of subsistence necessary for the maintenance of the labourer.” If for example these means of subsistence require half a working day to produce, then “there is incorporated daily in labour power half a day’s average social labour... If half a day’s average social labour is incorporated in three shillings, then three shillings is the price corresponding to the value of a day’s labour power”.⁴⁷

But just because a worker reproduces his value in half a working day is no reason to down tools. According to Marx,

“The fact that half a [working] day’s labour is necessary to keep the labourer alive during 24 hours, does not in any way prevent him from working a whole day. Therefore, the value of labour power, and the value which that labour power creates in the labour process, are two entirely different magnitudes; and this difference of the two values was what the capitalist had in view, when he was purchasing the labour power”.⁴⁸

⁴⁴ Marx, K. , “Wages, price and profit” in Marx-Engels Selected Works, Volume I, Marx-Engels-Lenin Institute (ed.), Foreign Languages Publishing House, Moscow, 1951, p. 384.

⁴⁵ Sweezy, op. cit., p. 59.

⁴⁶ Robinson, J. An Essay on Marxian Economics , Macmillan, London, 1970, p. 17.

⁴⁷ Marx, K. Capital Volume I, Progress Press, Moscow, 1954, p. 167. Marx continues on page 168 that this is dependent “on the habits and degree of comfort in which the class of free labourers has been formed... there enters into the determination of the value of labour power a historical and moral element.”

⁴⁸ Marx, K. Capital Volume I, Progress Press, Moscow, 1954, p. 167. Marx continues on page 168 that this is dependent “on the habits and degree of comfort in which the class of free labourers has been formed... there enters into the determination of the value of labour power a historical and moral element.”

⁴⁸ Ibid, p. 188.

This difference between the value of labour power, and the value the labourer can create when set to work, is the explanation of surplus, and hence profit.

The Contribution of Non-labour Commodity Inputs

There are two propositions in the statement that labour power is the only source of value: firstly, that labour power creates value, and secondly that no other input to production has the same power. Arguments to both effects abound throughout Marx's major economic volumes, with the latter proposition involving a sharp differentiation of his views from those of Smith, and to some extent Ricardo.

Marx also differed substantially from Ricardo and Smith in that he consistently acknowledged that the value of the commodity must include a component from machinery and raw materials. Smith failed to clearly distinguish the need to renew machinery and raw materials from the income components of the price of a commodity:

“In every society the price of every commodity finally resolves itself into ... those three parts [wages, profit and rent]; ... all the three enter, more or less, ... into the price of ... commodities.... These three parts seem either immediately or ultimately to make up the whole price.... A fourth part, it may perhaps be thought, is necessary for replacing the stock... But it must be considered that the price of any instrument ... is itself made up of these three parts”.⁴⁹

As Marx pointed out,⁵⁰ this means that parts of gross output which are simply necessary to produce the gross output are wrongly typecast as being income to someone in society. To count them as income in their own right is in effect to double count them, once as inputs, the second time as components of final goods.

Ricardo initially argued that the value of instruments of labour must constitute part of the price of a commodity—“Suppose the weapon necessary to kill the beaver, was constructed with much more labour than was necessary to kill the deer... one beaver would naturally be of more value than two deer [the exchange rate Smith had used in his text]”.⁵¹ However he frequently lapsed into apparent ignorance of this insight, for example, by dismissing the value contribution of machinery in the same breath as dismissing that of natural agents,⁵²

⁴⁹ Though, as noted earlier, Ricardo's failings here were more the product of inconsistent language than lapses of logic.

⁴⁹ Though, as noted earlier, Ricardo's failings here were more the product of inconsistent language than lapses of logic.

⁵⁰ Marx, K., *Theories of Surplus Value, Part I*, Progress Press, Moscow, 1963, pp. 97-103. The section is entitled “Smith's error in resolving the total value of the social product into revenue. Contradictions in his views on gross and net revenue.”

⁵¹ Ricardo, op. cit., p. 17.

⁵² “M. Say accuses Dr. Smith of having overlooked the value which is given to commodities by natural agents, and by machinery, because he considered that the value of all things was derived from the labour of man; but it does not appear to me, that this charge is made out; for Adam Smith no where undervalues the services which these natural agents and machinery perform for us, but he very justly distinguishes the nature of the value which they add to commodities—they are serviceable to us, by increasing the abundance of productions, by making men richer, by adding value in use; but as they perform their work

and by sometimes ignoring the additive effect on value of employing more machinery (which he had earlier assumed): “By the invention of machinery ... a million of men may produce double, or treble the amount of riches, ... but they will on no account add anything to value”.⁵³ Marx addresses this failing of Ricardo in *Theories of Surplus Value, Part II*, saying that “This is quite wrong. The value of the product of a million men does not depend solely on their labour but also on the value of the capital with which they work”.⁵⁴

Despite having failed to systematically account for the depreciation of machinery in gross output, Smith accepts that a machine can be a source of more value than it itself contains: “The expense which is properly laid out upon a fixed capital of any kind, is always repaid with great profit, and increases the annual produce by a much greater value than that of the support which such improvements require”.⁵⁵ In contrast, Ricardo makes the same supposition as Marx, that the value embodied in machinery and raw materials is transferred to the product by the labour process,⁵⁶ thus impliedly ruling out any value-productive contribution by machinery.⁵⁷

Again, where his forebears implied and were vague, Marx states and is emphatic: Though the value of the means of production is preserved in the labour process, that preserved value is the sum total of their contribution to the value of the product. Therefore labour is the only source of value, in the sense that it is the only commodity which can create surplus value.⁵⁸ Thus for machinery and raw materials,

“The maximum loss of value that they can suffer in the process, is plainly limited by the amount of the original value with which they came into the process, or in other words, by the labour-time necessary for their production. Therefore, the means of production can never add more value to the product than they themselves possess independently of the process in which they assist. However useful a given kind of raw material, or a machine, or other means of production may be, though it may cost £150, or, say 500 days’ labour, yet it cannot, under any circumstances,

gratuitously, as nothing is paid for the use of air, of heat, and of water, the assistance which they afford us, adds nothing to value in exchange.” (Ibid, p. 271).

⁵³ Ibid, p. 258.

⁵⁴ Marx, K. *Theories of Surplus Value*, Volume II, Progress Press, Moscow, 1968, p. 538.

⁵⁵ Smith op. cit., p. 124.

⁵⁶ “Or suppose that ... they [instruments of labour] were of very unequal durability; of the durable implement only a small portion of its value would be transferred to the commodity, a much greater portion of the value of the less durable implement would be realized in the commodity”. Ricardo, op. cit., pp. 17-18.

⁵⁷ “Or suppose that ... they [instruments of labour] were of very unequal durability; of the durable implement only a small portion of its value would be transferred to the commodity, a much greater portion of the value of the less durable implement would be realized in the commodity”. Ricardo, op. cit., pp. 17-18.

⁵⁸ “the values of the means of production used up in the process are preserved, and present themselves afresh as constituent parts of the value of the product... The value of the means of production is therefore preserved, by being transferred to the product”. Capital, Volume I, op. cit., p. 193.

add to the value of the product more than £150”.⁵⁹

Labour as the Only Source of Value

The topic of the source of value first appears in the *Grundrisse* when Marx asserts the absolute basis for exchange value in a system of commodity production. He gives several arguments to support the contention that labour is the only source of surplus value, starting with the proposition that labour is the active ingredient in production, and capital passive:

“Further, if it is conceived in one of the aspects which confronts labour as material or as mere means, then it is correct to say that capital is not productive because it is then regarded merely as the object, the material which confronts labour; as merely passive”.⁶⁰

Marx puts forward a proposition which could be called The Conservation of Value, i.e. that the value of the product is necessarily equal to the value of the inputs. He states that

“Regarded as a value, the product has in this respect not become product, but rather remained identical, unchanged value, which merely exists in a different mode... The value of the product is = to the value of the raw material + the value of the part of the instrument of labour which has been destroyed ... + the value of labour”.⁶¹

Surplus arises because the value created by labour power is the length of the working day, whereas its cost to the capitalist was the lesser cost of the means of subsistence. However the values of the instrument of labour and raw material are simply preserved.

The argument that labour preserves the value of the means of production is prominent throughout the *Grundrisse* and *Capital*. Labour does not reproduce the value of the means of production, but preserves it “because a new one [value] is added to them. The capitalist thus obtains this preservation of the old value just as free of charge as he obtains surplus labour”.⁶²

Marx’s commonest expression of the non-value productivity of the means of production is that they add to production what they lose through depreciation. “The consumption, in the production process, of the element of value of the instrument ... is part of the simple production process itself, hence the value of the consumed instrument ... has to be recovered again in the value (exchange value) ... of the product”.⁶³

⁵⁹ “the values of the means of production used up in the process are preserved, and present themselves afresh as constituent parts of the value of the product... The value of the means of production is therefore preserved, by being transferred to the product.”. *Capital*, Volume I, op. cit., p. 193.

⁶⁰ “The value (real exchange value) of all commodities (labour power included) is determined by their cost of production, in other words by the labour time required to produce them. Their price is this exchange value of theirs, expressed in money.” *Grundrisse*, op. cit., p. 136.

⁶¹ *Ibid*, p. 312-313.

⁶² *Ibid*, pp. 355-56.

⁶³ *Ibid*, p. 312-313.

These propositions are repeated throughout *Theories of Surplus Value* and *Capital*. In essence, each asserts that the capitalist pays value for the means of production, and this value is returned to him through the production process; whereas he pays value for the labour power, but the work that labour power can do exceeds its own value: hence surplus arises.

7. Marx's Traditional Interpreters

Böhm-Bawerk

Though Sweezy's edition of Böhm-Bawerk's *Karl Marx and the close of his system*⁶⁴ gives no evidence of a direct lineage, it is evident that Böhm-Bawerk conformed to the precedent set by Wagner, of arguing (on the basis of Capital alone) that use-value plays no role in Marx's economics. Böhm-Bawerk starts with the fact that Marx's analysis proceeds from the commodity.⁶⁵ He then questions the two bases of the classical treatment of the commodity: firstly, that value reflects effort;⁶⁶ secondly, that exchange involves the transfer of equivalents.⁶⁷ He disputes the idea that equality of some sort is required, because he thinks that for things to be exchanged, some gain must occur to each party—hence some inequality must prevail to motivate exchange: “exchange ... points rather to the existence of some inequality ... which produces the alteration”.⁶⁸

In his view, Marx arrives at the opinion that use-value plays no role in the determination of value, and the conclusion that labour power is the only source of value, using a method of exclusion. Marx examines “the various properties possessed by the objects made equal in exchange, and according to the method of exclusion separates all those which cannot stand the test, until at last only one property remains, that of being product of labour”.⁶⁹ Böhm-Bawerk observes that this procedure is “somewhat singular.... It strikes one as strange that instead of submitting the supposed characteristic property to a positive test ... Marx tries to convince us that he has found the sought-for property, by a purely negative proof, by showing that it is not any of the other properties”.⁷⁰

A first step in this method, Böhm-Bawerk claims, was to exclude from the field of analysis the products of Nature, giving his term “commodity” a much narrower meaning than the term “value in use”. Böhm-Bawerk argues that the “apparently harmless” opening sentence of *Capital* is in fact “quite wrong ... if we take the term ‘commodity’ to mean products of labour, which is the sense Marx subsequently gives to it. For the gifts of nature, inclusive of the soil, constitute a by no means insignificant, but on the contrary a very important element of national wealth”.⁷¹ With these included in his analysis, Böhm-Bawerk claims,

⁶⁴ Böhm-Bawerk, op. cit. Sweezy's edition does not give Böhm-Bawerk's references, and there is no mention of Wagner in his footnotes.

⁶⁵ “A commodity is, on one side, a useful thing, ... and on the other, it forms the material medium of exchange value.” Ibid, p. 9.

⁶⁶ “Value and effort ... are not ideas so intimately connected that one is forced immediately to adopt the view that effort is the basis of value.” Ibid, p. 65. The intervening pages take Marx's system for granted and explore the problems this causes with the transformation of values into prices.

⁶⁷ “Marx had found in old Aristotle the idea that ‘exchange cannot exist without equality, and equality cannot exist without commensurability’. Starting from this idea he... infers that ‘a common factor of the same amount’ must exist in the things exchanged”. Ibid, p. 68.

⁶⁸ Ibid, p. 68.

⁶⁹ Ibid, p. 68.

⁷⁰ Ibid, p. 69.

⁷¹ Ibid, pp. 71-72.

Marx could not have concluded that work is the common factor,⁷² because there are objects with exchange value which incorporate no work.

Böhm-Bawerk argues that these natural objects have no “labour-value” but do have the general concept of utility in common, and thus utility must be a factor in price determination.⁷³ In other words, Böhm-Bawerk differed from Marx here because he had developed the concept of ‘abstract’ use-value as a common attribute of goods, whereas to Marx use-value was concrete, specific to each commodity. He continues that, having already improperly excluded use-value as a potential “common substance”, Marx next ignores such properties as being “scarce in proportion to demand”, “subjects of demand and supply”, “appropriated”, “natural products”, “that they cause expense to their producers”.⁷⁴

“Why then, I ask again today, may not the principle of value reside in any one of these common properties as well as in the property of being products of labour? For in support of this latter proposition Marx has not adduced a shred of positive evidence. His sole argument is the negative one, that the value in use, from which we have happily abstracted, is not the principle of exchange value”.⁷⁵

He turns Marx’s distinction between concrete and abstract labour against him, arguing that the method Marx used to derive abstract labour from concrete could equally be used to derive abstract utility from particular, where the amounts in different goods can be compared as a basis for exchange.⁷⁶

Böhm-Bawerk concludes on the subject of the exclusion of use-value, and the source of value, with the judgment that “it is quite impossible that this dialectical hocus-pocus constituted the ground and source of Marx’s own convictions”.⁷⁷ Instead he believes that Marx was convinced that labour was the source of value because he inherited these opinions from Smith and Ricardo.

“Above all they were opinions derived from authority. Smith and Ricardo, the great authorities, as was then at least believed, had taught the same doctrine. They had not proved it any more than Marx.... It was to tendencies and views of this kind, which had acquired from Smith and Ricardo a great but not undisputed authority,

⁷² Ibid, p. 73.

⁷³ His proposition is that “The special forms under which the values in use of the commodities may appear ... is of course disregarded, but the value in use of the commodity as such is never disregarded.” Ibid, p. 74, where he quotes from his own *Capital and Interest* .

⁷⁴ He means here that they have a price, as distinct from a value.

⁷⁵ Ibid, p. 76.

⁷⁶ “If Marx had chanced to reverse the order of the examination, the same reasoning which led to the exclusion of the value in use would have excluded labour; and then the reasoning which resulted in the crowning of labour might have led him to declare the value in use to be the only property left, and therefore to be the sought-for common property, and value to be “the cellular tissue of value in use.” Ibid, p. 77.

⁷⁷ Ibid, p. 77. This was in the context of a paean to Marx that he did not believe that “a thinker such as he was (and I look upon him as an intellectual force of the very highest order)” could have followed “such tortuous and unnatural methods” to reach his conclusions.

that Marx became heir, and as an ardent socialist he was willing to believe them”.⁷⁸

As for Marx’s alleged method, Böhm-Bawerk’s final judgment is scathing:

“It is clear that he could not rely simply on the classical writers for [proof of] this [the proposition that labour is the only source of value], as they had not proved anything; and we also know that he could not appeal to experience or attempt an economico-psychological proof, for these methods would have straightaway led him to a conclusion exactly opposite to the one he wished to establish. So he turned to dialectical speculation, which was, moreover, in keeping with the bent of his mind. And here it was a question of using any means at hand. He knew the result that he wished to obtain, and must obtain, and so he twisted and manipulated the long-suffering ideas and logical premises with admirable skill and subtlety until they actually yielded the desired result in a seemingly respectable syllogistic form. Perhaps he was so blinded by his convictions that he was not aware of the monstrosities of logic and method which had necessarily crept in, or perhaps he was aware of them and thought himself justified in making use of them simply as formal supports... What I will say, however, is that no one, with so powerful a mind as Marx, has ever exhibited a logic so continuously and so palpably wrong as he exhibits in the systematic proof of his fundamental doctrine”.⁷⁹

Hilferding

The major rejoinder to Böhm-Bawerk’s criticism of Marx was made by Hilferding,⁸⁰ and between Hilferding and Böhm-Bawerk yawns the chasm separating the Marxist and neoclassical perspectives on capitalism. Hilferding’s first shout across this gap is to deny Böhm-Bawerk’s concept of abstract utility.⁸¹ Hilferding’s denial is based as much on the classical school’s general approach to capitalism as on the distinctive approach taken by Marx. From this perspective capitalism is the production of commodities to maximise exchange value, whereas Böhm-Bawerk’s neoclassical school regards capitalism as the exchange of given commodities to maximise utility.

From the classical/Marxian viewpoint, the individual capitalist produces an abundance of one commodity, “of which one specimen at most can possess a use-value for him”,⁸² so that he may exchange it for exchange value, or money. Under previous social systems, when goods were produced primarily for their utility, and exchange was “no more than an occasional incident wherein superfluities only are exchanged”,⁸³ goods confronted one another solely as use-values, and differences in the use-value of the tendered goods may

⁷⁸ Ibid, pp. 78-79.

⁷⁹ Ibid, pp. 79-80.

⁸⁰ Hilferding, R. Böhm-Bawerk’s criticism of Marx in *Karl Marx and the Close of his System*, op. cit.

⁸¹ “When I disregard “the specific forms in which use-value may manifest itself” ... I have, as far as I am concerned, disregarded use-value in general, since, as far as I am concerned, use-value exists in its concreteness solely as a thus or thus constituted use-value.”. Ibid, p 126.

⁸² Ibid, p. 126.

⁸³ Ibid, p. 126.

have motivated the consideration paid. But under capitalism, in the first instance goods are not produced for their utility to the direct producer but for their exchange value, and exchange involves one party giving what is for him a non-use-value in return for exchange value. In this capitalist circumstance, “the distinction becomes firmly established between the utility of an object for the purposes of consumption, and its utility for the purposes of exchange. Its use-value becomes distinguished from its exchange value”.⁸⁴ Use-value, then, plays no role in determining exchange value.

Hilferding then turns to Böhm-Bawerk’s next argument, Marx’s assertion that there are other common qualities of commodities apart from being products of labour. While he accepts that Marx’s technique was one of exclusion, he argues that this was from the perspective that political economy was a social science of the relations between people; for this reason he justifies both the exclusion of use-value, and of all other characteristics of commodities save their labour content. Reiterating the proposition that only commodities have both use-value and value, Hilferding states that the term commodity is therefore

“an economic term; it is the expression of social relationships between mutually independent producers... The contrasted qualities of the commodity as use-value and as value, the contrast between its manifestation as a natural form or as a value form, now appears to us to be a contrast between the commodity manifesting itself on the one hand as a natural thing and on the other hand as a social thing. We have, in fact, to do with a dichotomy, wherein the giving of the place of honour to one branch excludes the other, and conversely.... As a natural thing, it is the object of natural science; as a social thing, it is ... the object of political economy.... the natural aspect of the commodity, its use-value, lies outside the domain of political economy”.⁸⁵

Having allowed only social issues to determine the social relation of exchange, Hilferding says that “A commodity, however, can be the expression of social relationships only in so far as it is itself contemplated as a product of society... But for society ... the commodity is nothing more than a product of labour”.⁸⁶ Thus labour must be the principle behind value.⁸⁷

As for Böhm-Bawerk’s charge that Marx applied the same process of negative analysis to crown abstract labour (distinguished from concrete labour) as the source of value as he did to exclude use-value from any role in determining value, Hilferding argues that Marx used

⁸⁴ Ibid, pp. 126-27; p. 91 of my reference for Capital .

⁸⁵ Ibid, p. 130, paraphrasing Marx in *Contribution to the Critique of Political Economy*, op. cit., p. 28. He also footnotes a footnote of Marx’s, attached to the statement he has paraphrased, stating that this is why “German compilers write con amore about use-values, calling them “goods”.... Useful information on “goods” may be found in “manuals dealing with merchandise”.” (Marx Contribution , op. cit., p. 28.)

⁸⁶ Hilferding , op. cit., pp. 130-31.

⁸⁷ “It is therefore because labour is the social bond uniting an atomised society, and not because labour is the matter most technically relevant, that labour is the principle of value and that the law of value is endowed with reality.” Ibid, p. 134. The sentence following this leads into a dispute over the determination of rent.

the very opposite process. His reasoning here largely flows from the fact that, in Marx's theory of value, there is no such thing as abstract utility—whereas in Böhm-Bawerk's scheme, that is the thing which the individual maximises through exchange. To Hilferding, if you abstract from concrete use-value, there is nothing.⁸⁸

Sweezy

On the issues of the role of use-value in Marx's economics, the source of surplus value, and the non-value-productivity of the non-labour inputs to production, Sweezy largely paraphrased and popularised Hilferding. He differed mainly in the strength of his emphasis on a taxonomy between natural and social, and between relations pertaining to all societies and those pertaining solely to capitalism, as the arbiter of whether a particular object was a subject of political economy.

Quoting the same section of the *Contribution* that Hilferding paraphrased, Sweezy quickly disposes of the role of use-value in Marx's economics, emphasising that use-value was applicable to all societies, and hence not a determinate characteristic of capitalism.⁸⁹ Use-value's role is thus limited to being a pre-requisite to exchange, though as such it is “in no sense excluded by Marx from the causal chain of economic phenomena”.⁹⁰ However while the use-value of a commodity is a feature common to all societies, value is a category specific to capitalism. Drawing on his social/natural taxonomy, Sweezy argues that

“The requirement that all economic categories must represent social relations led Marx directly to labour as the ‘value that lies hidden behind’ exchange value. ‘Only one property of a commodity,’ as Petry expressed it, ‘enables us to assume it as the bearer and expression of social relations, namely its property as the product of labour, since as such we consider it no longer from the standpoint of consumption but from the standpoint of production’”.⁹¹

Sweezy made heavier use than Hilferding of Marx's delineation of labour into concrete and abstract, and his identification of the use-value of labour power with the former, and of the value of labour power with the value of the latter. Hence, according to Sweezy, the

⁸⁸ Ibid, p. 131. Based on Marx's dialectic of commodities, which itself is based on a production view of capitalism rather than a consumption view, that is partially correct. However in his argument he implies that prior to exchange, the commodity has a use-value to its producer. In fact Marx argues that to the producer, the commodity is a non-use-value. It only becomes a use-value in the hands of the purchaser.

⁸⁹ “‘Every commodity,’ Marx wrote, ‘has a twofold aspect, that of use-value and exchange value.’ In possessing use-value a commodity is in no way peculiar. Objects of human consumption in every age and in every form of society likewise possess use-value. Use-value is an expression of a certain relation between the consumer and the object consumed. Political economy, on the other hand, is a social science of the relations between people. It follows that ‘use-value as such lies outside the sphere of investigation of political economy.’”. Sweezy, op. cit., p. 26.

⁹⁰ Ibid, p. 26-27.

“As a value, a commodity is a feature of a specific historical form of society which has two main distinguishing characteristics: (1) developed division of labour, and (2) private production. In such an order—and in none other—the labour of producers eventuates in commodities or, neglecting the universal aspect of commodities (utility), in values”. Ibid, p. 28.

⁹¹ Ibid, p. 28.

use-value of labour power is identified with the useful characteristics of the commodity which labour produces.⁹² He proceeds by analogy with the treatment of the commodity in general to consider the use-value and value of labour,⁹³ and concludes that just as the use-value of a commodity is irrelevant to economics, so too is the specific character of labour power (its use-value) irrelevant to value creation: what matters is labour in the abstract.

Having accounted for value in labour, Sweezy next searches for the source of surplus value. His methodology here deserves, more so than does Marx's, Böhm-Bawerk's characterisation as a "negative proof". Having eliminated exchange as a possible source of surplus on the basis of the exchange of equivalents, Sweezy proceeds in turn to consider raw materials, buildings, and machinery, finally arriving at "only one possibility", that labour power is the source of surplus value. After dismissing exchange as a potential source of value, he continues:

"It seems equally obvious that the materials entering into the productive process cannot be a source of surplus value. The value which the materials have at the outset is transferred to the product at the conclusion, but there is no reason to assume that they possess an occult power to expand their value. The same is true, though perhaps less obviously, of the buildings and machines which are utilized in the productive process. What differentiates buildings and machinery from materials is the fact that the former transfer their value to the final product more slowly... It is, of course, true that materials and machinery can be said to be physically productive in the sense that labour working with them can turn out a larger product than labour working without them, but physical productivity in this sense must under no circumstances be confused with value productivity. From the standpoint of value there is no reason to assume that either materials or machinery can ultimately transfer to the product more than they themselves contain. This leaves only one possibility, namely that labour power must be the source of surplus value".⁹⁴

Having concluded by exclusion that labour is the only possible source of surplus, Sweezy turns to an analysis of the particular characteristics of this commodity and its exchange with capital to explain how it can generate a surplus. It is the familiar case that the value of the labourer amounts to his means of subsistence, which may take him 6 hours labour to replicate, while his work for the capitalist will extend beyond this minimum.⁹⁵ Sweezy

⁹² "Labour also has two other aspects, the one corresponding to the use-value and the other to the value of the commodity which it produces. To the commodity as a use-value corresponds labour as useful labour.... The labour, whose utility is thus represented by the value in use of its product, or which manifests itself by making its product a use-value, we call useful labour." Ibid, p. 28-29.

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⁹⁴ Ibid, pp. 60-61. The section omitted, for brevity's sake only, is "that is to say, over a succession of production periods instead of all at once as in the case of materials."

⁹⁵ "If the process were to break off at this point the capitalist would be able to sell the product for just enough to reimburse himself for his outlays. But the worker has sold himself to the capitalist for a day, and there is nothing in the nature of things to dictate that a working day shall be limited to six hours. Let us

quotes a passage from Marx to support his interpretation:

“Every condition of the problem is satisfied, while the laws that regulate the exchange of commodities, have been in no way violated. For the capitalist as buyer paid for each commodity, for the spindle, and the labour power, its full value. He sells his yarn ... at its exact value. Yet for all that he withdraws ... more from circulation than he originally threw into it”.⁹⁶

Meek

More so than Hilferding and Sweezy, Meek is at pains to put Marx into historical perspective as the third great member of the school of classical economics,⁹⁷ and as a practitioner of Hegelian logic. Meek traces Marx’s classical roots back to Aquinas’ concept of just price, which was based on the direct producers’ cost of production. The difficulties this concept encountered with the prevalence of merchant exchange resulted in its dilution to the Mercantilist notion that just price was simply whatever price a good fetched at market, with utility as the underlying arbiter of value.⁹⁸ However, the producers’ cost concept began to revive in 17th Century Britain, reflecting the development of merchant manufacturers who had direct control of production using “free” wage-labourers.⁹⁹ Meek sees this new source of profit as the spring from which the classical labour theory of value flowed:

“It is from this epoch-making discovery of the great productive potentialities of “free” wage-labour organised on a capitalist basis that the classical theory of value, really dates.... A precious new commodity, ... labour power, is thrown upon the market—a commodity which when properly organised ... is capable of yielding not only an abundance of material goods to the nation, but also handsome profits to its purchaser.... General, abstract, human labour slowly begins to be recognised as the primary and universal cost-element in production, the basic cause of that value-difference between output and input upon which national prosperity (and individual profits) ultimately depend”.¹⁰⁰

Early proponents of this view did not have a theory of value as such. When they spoke of labour creating value, they generally meant one of two things: “that the use-value or utility

assume that the working day is twelve hours. Then in the last six hours the worker continues to add value, but now it is value over and above that which is necessary to cover his means of subsistence; it is, in short, surplus value which the capitalist can pocket for himself.” Ibid, p. 61.

⁹⁶ Ibid, p. 61, quoting *Capital*, Volume I, p. 217. In my reference this passage occurs on p. 189.

⁹⁷ Though he writes as if looking down on the past from the peak of Marx's vision, rather than a strictly chronological view.

⁹⁸ Meek, op. cit., Ch. 1. Meek notes that not only were the profits of the merchant “regarded as being paid by the consumer, but also that in the earlier mercantilist period they actually were so paid.... the means of production, generally speaking, were still in the hands of the direct producers. [Merchant's] Profit could be secured by the ‘exploitation’ of the consumer, but only rarely as yet by the exploitation of the direct producer.” Ibid, p. 17.

⁹⁹ Ibid, p. 19. “Free” in the Marxist sense of being without any means of production of their own.

¹⁰⁰ Ibid, p. 20.

of commodities was largely a creation of labour”;¹⁰¹ or that “wage-costs were usually the most important element in the cost of production of manufactured commodities”.¹⁰²

As awareness of the productiveness of labour grew, so did awareness of net gains to the employer of labour, proportional to the size of his stock of capital.¹⁰³ This profit also came to be regarded as something which was actually generated in the process of production; “The theory of value, therefore, had to be capable of explaining how the level of profit was determined”.¹⁰⁴ According to Meek, pre-Smithian attempts to explain the source of value either became lost in the circularity of attributing value to wages-cost, or attributed the increase in monetary value to labour adding to the use-value of the product. However, the fact that items of little utility often had high prices, while those of great utility were often inexpensive, undermined this latter explanation.¹⁰⁵

Instead the concept that “the expenditure of social effort ... conferred value on a commodity... with labour-time as its appropriate measure”¹⁰⁶ was the one drawn upon by Smith and Ricardo, along with the distinction between wealth and value.¹⁰⁷ Meek cites Smith’s discussion of the use-value and exchange value of diamonds and water respectively as laying “The foundations of the basic classical distinction between use-value and exchange value”. There was an “abstract scale of ‘normal need’ upon which expensive goods like diamonds are given a very low rating and free goods like water a very high one. ‘Value in use’ in this sense is evidently not even a necessary condition of value in exchange, let alone its determinant.” However the modern concept “measures the usefulness of commodities with reference to their power to satisfy any human want or need,” and in this sense value in use is “a necessary condition of value in exchange”.

¹⁰¹ Ibid, p. 21.

¹⁰² Ibid, p. 22.

¹⁰³ “profit eventually began to appear as an income uniquely associated with the use of capital in the employment of wage-labour.” Ibid, p. 24.

¹⁰⁴ Ibid, p. 33.

¹⁰⁵ “Other economists had suggested that labour contributed exchange value to commodities by adding to the use-value of the raw materials, thereby increasing the quantity of other commodities which purchasers were willing to give in exchange for them. But an explanation of exchange value in terms of use-value, it seemed, would not do either. It had gradually become apparent that although commodities could not be sold unless they possessed utility, the “natural prices” at which they tended to sell bore little relationship to their utility”. Ibid, p. 34. Meek continues with the important point that given the prevalence of constant returns to scale at the time, “it was only a change in the cost of production which could possibly bring about a change in the equilibrium price”. Ibid, p. 35.

¹⁰⁶ Ibid, p. 35.

¹⁰⁷ “It had, of course, been appreciated ... that the use-value of a commodity was something different from its exchange value... But it was some time before the distinction which Ricardo always emphasised between wealth (a sum of use-values to the creation of which both land and labour contributed) and value (which was determined by labour alone) was accurately formulated”. Ibid, p. 42.

¹⁰⁸ Ibid, p. 72. Meek criticises those who think that Smith would have welcomed the marginal utility theory of value “as affording the basis for a solution of the so-called ‘paradox of value’ which was exemplified in the water-diamond illustration. But ... it cannot be too strongly emphasised than any approach to the problem of the determination of value from the side of utility would have been regarded by him as quite alien to the general outlook of the *Wealth of Nations*. Smith makes it perfectly clear that in his opinion demand has nothing directly to do with the determination of exchange value” (Ibid, p. 73), though it does affect the division of labour, the amount of commodities produced, and the market price as opposed to the natural price. “But Smith insisted that the level of the natural price was independent of

Meek points out that when Ricardo was confronted with Bentham's view that utility is the ¹⁰⁸basis of value, he said per contra that he liked "the distinction which Adam Smith makes between value in use and value in exchange. According to that opinion utility is not the measure of value". As well as distinguishing between use-value and exchange value, Ricardo distinguished between wealth and value. Later Ricardo also developed the concept of absolute value, with labour as its measure. Meek argues that this concept had nascent the idea that labour was the sole source of value. He quotes one passage from the third edition, where Ricardo says that "labour is their common measure, by which their real as well as their relative value may be estimated". Similarly in a letter to Trower, Ricardo says "I do not, I think, say that labour expended on a commodity is a measure of its exchangeable value, but of its positive value. I then add that exchangeable value is regulated by positive value, and therefore regulated by the quantity of labour expended".¹⁰⁹

Meek find his strongest evidence that the mature Ricardo saw labour as the source of value in the following quote:

"I may be asked what I mean by the word value, and by what criterion I would judge whether a commodity had or had not changed its value. I answer, I know no other criterion of a thing being dear or cheap but by the sacrifices of labour made to obtain it. Every thing is originally purchased by labour—nothing that has value can be produced without it... That the greater or lesser quantity of labour worked up in commodities can be the only cause of their alteration in value is completely made out as soon as we are agreed that all commodities are the produce of labour and would have no value but for the labour expended upon them".¹¹⁰

Meek lists the rejection of the concept of absolute value, far greater emphasis on supply and demand, "increasing emphasis on the role played by utility in the determination of value", and "productivity theories of distribution" as trends in conventional economic thought between Ricardo and Marx.¹¹¹ Much of the impetus for these developments, he argues, came from the use to which many "Ricardian socialists" put the labour theory of value.¹¹²

fluctuations in effective demand." Ibid, p. 74.

¹⁰⁸ "The rise of prices and the increase of riches', he says, 'have no necessary connection. Machinery adds to the real riches of a community at the same time that prices fall.'" Ibid, p. 88.
¹⁰⁹ Ibid, p. 113. As noted earlier, Steedman puts the opposing view on Ricardo and the source of value (Steedman, op. cit.)

¹⁰⁹ Meek, op. cit., p. 113.

¹¹⁰ Ibid, p. 116, quoting Ricardo's Works, "(Sraffa's edn.)", Volume. IV, p. 397.

¹¹¹ Ibid, p. 123.

¹¹² "If labour in fact 'produced all', these writers were asking, why should it not also receive all—or at least considerably more than it did at present?... It was probably inevitable, therefore, that many of the more conservative economists should come to regard Ricardo's theory of value not only as logically incorrect but also as socially dangerous". Ibid, p. 124.

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And so to Marx. Meek describes Marx's arrival at the Labour Theory of Value as the result of his historical and philosophical studies, in particular those founded on—and which eventually inverted—Hegel. Discussing Marx's early notebooks on political economy, Meek says that “Marx appears in this work to be attempting to draw certain important parallels and differences between Hegelian philosophy and classical political economy”, with the important similarity being that both emphasise the importance of labour.¹¹³ While there was at this stage “no direct development of the Labour Theory of Value”, Meek argues that the concept necessarily developed out of the materialist conception of history,¹¹⁴ which Marx and Engels had largely worked out by the time of *The German Ideology*. Value arises from this social, production-based relation between men, with the relationship between worker and capitalist “the dominant, determining relationship”, which “must therefore be put in the forefront of the investigation”.¹¹⁵

Like Sweezy before him, Meek notes that Capital begins with the “twofold aspect’ of commodities—that of use-value and exchange value”, and that use-values constitute wealth, though not necessarily value.¹¹⁶ He then quotes in toto the ensuing paragraphs of Capital, which present the proposition that lying behind the relative exchanges of commodities is an absolute concept of value. He includes the statement that “‘This common ‘something’ cannot be ... any natural property of commodities”, which rules out use-value as the basis for exchange value, thus leaving “‘only one common property’”, that of being “‘products of labour’”.¹¹⁷ Meek comments that many have regarded this as an intended proof of the Labour Theory of Value by Marx, and have attacked it instead as a mere definition. Meek sees this as “misconceived”, arguing instead that the Labour Theory of Value arose necessarily out of the materialist conception of history. “If the basic relation between men as commodity-producers in fact determined their exchange relations it could only do so per medium of the relative quantities of labour which they bestowed on these products”.¹¹⁸ He continues that the concept that labour is the source of value was not susceptible to a logical proof “of the type used to prove a theorem in geometry”, but that its “proof” rested on being able to establish that this theory was capable of solving the important problems set before it.¹¹⁹ As for Marx's equally unprovable assertion that use-

124.

¹¹³ Both systems of thought, he argues in effect, possess the virtue that they regard labour as being in a certain sense the “essence” of man: but whereas “The only labour which Hegel knows and recognises is abstract mental labour”, the classical economists conceive of labour in a much more important sense. In particular, ... the classical economists recognise that labour constitutes “the unique essence of wealth”. Ibid, pp. 135-36.

¹¹⁴ That “men, developing their material production and their material intercourse, alter, along with this, their real existence, their thinking and the products of their thinking. Life is not determined by consciousness, but consciousness by life.” Ibid, p. 141, citing *The German Ideology*.

¹¹⁵ Ibid, p. 150.

¹¹⁶ Ibid, p. 158, citing Capital, Vol. 1 pp. 2-3. In the edition I have worked with, this corresponds to pages 43-44.

¹¹⁷ Ibid, p. 159, citing Capital pp. 3-4, my reference p. 45.

¹¹⁸ Ibid, p. 164.

¹¹⁹ “It was also necessary to demonstrate that a theory of value erected on the basis of this particular concept was in fact capable of providing a real solution of the problems which were put before it. The

value plays no part in determining exchange value, Meek makes the observation that Marx may have paid more attention to justifying this assertion had he been writing when the neoclassical school had become the dominant model of capitalism.¹²⁰

Turning from analysis of the commodity, Meek argues that Marx's distinction between abstract labour and useful labour was "the pivot on which a clear comprehension of political economy turns", and the means by which Marx explained the source of surplus value. Useful labour is what creates use-values; however "The labour which creates value is abstract labour—i.e., productive activity as such, from which all differences between the various kinds of activity have been abstracted".¹²¹ It is in the workings of this abstract labour, he claims, that the source of surplus value will be found.¹²² In a lengthy quote from Marx on this point, Meek notes that these workings begin with the value and the use-value of abstract labour (the commodity labour power):

"Marx's preliminary solution of the problem of profit in Volume I is so familiar that a very short summary of it is all that is required here. If it is a fact of experience that the capitalist usually finishes up with more money than he started with ... then it is evident that he 'must be so lucky as to find, within the sphere of circulation, a commodity, whose use-value possesses the peculiar property of being a source of value, whose actual consumption, therefore, is itself an embodiment of labour, and consequently, a creation of values'".¹²³

Thus while his proof that labour power is a source of value is essentially the same Sweezy's, it differs in that, by quotation at least, it does note the use of the concept of use-value by Marx in this context. It is the only mention of use-value made by any of Hilferding, Sweezy, Meek and Dobb when considering the source of surplus value.

Tying this in with the materialist conception of history, Meek continues that "history in fact does put such a unique commodity on to the market, by 'freeing' the direct producer from his means of production and thus transforming his labour power—i.e., his capacity to labour—into a commodity." He repeats the refrain that the cost of maintaining this capacity

really important part of 'Marx's proof of the Labour Theory of Value' was contained in the subsequent sections of *Capital*, in which Marx applied the theory to the analysis of economic reality, and in particular to the problem of distribution." *Ibid*, p. 164.

¹²⁰ "If Marx had been writing *Capital* twenty or thirty years later, when the marginal utility theory was becoming fashionable, it is possible that he would at this juncture have elaborated on his reasons for believing that the "common property" which commodities had of being objects of utility was not in fact capable of fulfilling the formal requirements.... As it was, he simply accepted the classical view ... that the particular estimates of the utility of a commodity made by the individuals who purchase it do not in fact determine its long-period equilibrium price." *Ibid*, p. 162. In a footnote he cites "a useful statement" by Ricardo on the reasons that classical economists exclude utility from the causation of exchange value.

¹²¹ *Ibid*, p. 165.

¹²² The ensuing pages in part discuss the reduction of skilled labour to unskilled labour. I return to this issue later.

¹²³ *Ibid*, p. 183, citing *Capital*, p. 145.

to labour is less than the amount of work the labourer can do in a typical working day.

“If the length of the working day is x hours, then the cost of maintaining a worker for that time will generally be less than x hours. Thus even though labour power is bought at its value, its use adds a surplus value (i.e., a value over and above its own value) to the value of the raw materials and depreciated machinery and buildings used up in production—a surplus which the capitalist is normally able to realise when he sells the finished commodity, even though he sells it at no more than its value.... In particular, the process of exploitation under capitalism is based not on a violation of the primary laws of commodity production, but, on the contrary, on their operation”.¹²⁴

Meek did not progress from this illustration that labour power is a source of value to the second issue that it is the only source of value. This omission may have occurred because of his belief that the labour theory emerges necessarily from the materialist conception of history, or perhaps because he did not believe that the proposition was susceptible to logical proof. While he devotes considerable space to the transformation problem and Pareto’s and Robinson’s challenges concerning the motivation of a capitalist to introduce machinery, Meek at no stage attempts to establish (as had Sweezy) that the non-labour inputs to production were not productive of value.

Dobb

With Dobb’s *Theories of Value and Distribution since Adam Smith*, the traditional interpretation of Marx reaches its apogee. The belief that use-value plays no role in Marx’s economics is so established that Dobb makes no reference to the concept of use-value, nor is there any discussion of Marx’s concept of the commodity.

Dobb emphasises Marx’s debt to Ricardo, quoting Schumpeter that ““Criticism of Ricardo was his [Marx’s] method in his purely theoretical work””.¹²⁵ Dobb adds that a Hegelian debt was just as apparent, though with Hegel’s idealistic procedure reversed into Marx’s

¹²⁴ Ibid, p. 184. He quotes from *Capital* on this point, “However much ... the capitalist mode of appropriation may appear to flout the primary laws of commodity production, it nevertheless arises, not from any violation of these laws, but, on the contrary, from their operation.” His reference is p. 812; mine is p. 548.

¹²⁵ Cambridge University Press, London, 1973.

¹²⁵ In Dobb’s 23 page index to his 272 page work, the word commodity does not appear, while exchange value occurs once and use-value occurs twice. The words are not referenced at all in the section on Marx, while the phrase “use-value” occurs there only once, in a section I later quote. Dobb’s total omission of this concept should be contrasted with the exposition given by Mandel in 1967 (first published in English in 1971), where he says that “it is the subtle distinction between the exchange value and the use-value of labour power that becomes the basis of the Marxist theory of surplus value, the chief contribution made by Marx to the development of economic science”. Mandel, E. *The formation of the economic thought of Karl Marx*, NLB, London, 1971, p. 83. However it should also be emphasised that Mandel had access to the then extant German edition of the *Grundrisse*.

¹²⁵ Cambridge University Press, London, 1973.

materialist one.¹²⁶ While initially subordinate to Nature, through the conscious action of production Man “had the distinctive capability of struggling with and against Nature—of subordinating and ultimately transforming it for his own purposes.... ‘By thus acting on the external world and changing it, he at the same time changes his own nature’”.¹²⁷

Dobb’s explanation, like Meek’s, lays emphasis upon the materialist conception of history as the source of the labour theory of value, and in addition credits the importance of the dialectic. To Dobb, the dialectic focused attention on the mode of production and its change over time, and this historical basis “serves also to explain the place assigned to Labour as human productive activity; why it was natural for Marx to place it in the very centre of the stage”.¹²⁸

Dobb also is at pains to establish Marx’s superiority over his many radical forerunners, who they felt that the system was based on exploitation, but were unable to provide a proof of this which did not rely on the concept of unequal exchange.¹²⁹ They “started from the position, either that labour gives a right to the whole product, or that labour alone creates ‘value’... But this was precisely why Marx regarded their theories as inadequate”¹³⁰ To Marx the “economic problem consisted, not in proving [exploitation], but in reconciling it with the law of value”.¹³¹ Dobb, like Meek, sees Marx’s answer to this paradox as “fairly simple, once the problem had been posed, and the answer is to-day fairly familiar”. He highlights the distinction between labour and labour power, with “the value of the former being less than the value ‘created’ as output by the labour it sustained”.¹³²

¹²⁶ While Hegel started from the mental and proceeded to the physical, Marx commenced with the physical and showed how it determined the social and mental.

¹²⁷ Ibid, p. 144, citing *Capital*, Vol I, p. 158.

¹²⁸ Ibid, p. 145.

¹²⁹ Dobb observes that “Stronger in intuition and sense that they were in rigorous analysis, they were writers who shared the discovery of an important clue, to which the orthodox were blind, even while they failed to approach a complete solution. One thing in particular that they failed to do was to show how ‘unequal exchanges’ or ‘surplus value’ could be reconciled with the existence of ‘perfect competition’.” Ibid, p. 141.

¹³⁰ Ibid, p. 146.

¹³¹ Dobb quotes Marx from *Wages, Price and Profit*, that an explanation of profits must proceed from the assumption that commodities are sold at their values. Ibid, pp. 146-47.

¹³² “It turned on a distinction to which he attached crucial importance, between labour and labour power. The latter he defined in *Capital* as ‘energy transferred to a human organism by means of nourishing matter’ and as ‘the aggregate of those mental and physical capabilities existing in a human being which he exercises whenever he produces a use-value of any description.’ The ‘nourishing matter’ needed to replace the energy used-up in work was the material input to human labour; and the possibility and dimensions of surplus value depended upon the value of the former being less than the value ‘created’ as output by the labour it sustained. The difference between the two he spoke of as the difference between ‘necessary labour-time’ (the input) and the total labour-time actually expended in production. It was completely analogous to Ricardo’s difference between ‘production and the consumption necessary for that production’”. Ibid, p. 150-51.

8. Use-value in Marx's Economics

Introduction

Just as Marx saw Ricardo as the author who cried “Halt!” and established the science of political economy based on “the determination of value by labour time”,¹³³ Rosdolsky¹³⁴ is the author who cried “Halt!” to the traditional perception that Marx did not employ the concept use-value in his analysis. While his work has not affected some Marxists, it has generally led to use-value being accredited a role in Marx's political economy.

Rosdolsky was fortunate to have available the *Grundrisse* as well as *Capital* and *Wagner and Theories of Surplus Value*, to aid in his interpretation of Marx. However, even in *Capital* itself there is sufficient evidence to challenge Hilferding's argument that use-value plays no role in Marx's economics, while by the time that Sweezy wrote *The Theory of Capitalist Development*, there was overwhelming published evidence to establish that Hilferding was hopelessly wrong. Taking Marx's major economic works in the sequence in which they were published, it can be adduced that the traditional interpretation was always debatable, while today it is simply untenable. This exposition begins with *Capital*, where intertwined with the strand of analysis which became the traditional interpretation, there is evident a second strand of analysis based on the dialectic between the use-value and exchange value of commodities.

Rosdolsky's Critique: the Role of Use-value

Rosdolsky's work constituted the first major examination of the *Grundrisse*, Marx's “Rough Draft” of *Capital*, which was first published in German in 1953, and was not published in English until 1973.¹³⁵ That preparatory set of working notes contained far more on methodological matters than the subsequently composed but previously published *Contribution* and *Capital*, and more even than the *Theories of Surplus Value*. On the basis of this work and the brief *Notes on Adolph Wagner*, Rosdolsky made a slashing attack on Marxists who have dismissed the role of use-value in Marx's economics. He notes that

“Among Marx's numerous critical comments on Ricardo's system the most striking can be found only in the Rough Draft, namely that Ricardo abstracts from use-value in his economics... and that consequently for him it ‘remains lying dead as a simple presupposition’.¹³⁶ ... Strangely enough, it concerns not only Ricardo, but also many of Marx's pupils, as it has been a tradition among Marxist economists to disregard use-value, and place it under the scope of ‘knowledge of merchandise’”.¹³⁷

He gives as his first example Hilferding's edict that “‘use-value, lies outside the domain of

¹³³ *Theories of Surplus Value* Part II, p. 166.

¹³⁴ Rosdolsky, R. *The Making of Marx's Capital*, Pluto Press, London, 1977.

¹³⁵ *Ibid*, p. xi.

¹³⁶ *Grundrisse*, op. cit., p. 267.

¹³⁷ *Ibid*, p. 73.

political economy”¹³⁸ Rosdolsky comments that while this appears to paraphrase Marx, in fact it distorts him, by omitting a crucial sentence. The full statement in the *Contribution* reads:

“To be a use-value is evidently a necessary pre-requisite of the commodity, but it is immaterial to the use-value whether it is a commodity. Use-value as such, since it is independent of the determinate economic form, lies outside the sphere of investigation of political economy. It belongs in this sphere only when it is itself a determinate form”.¹³⁹¹⁴⁰

Rosdolsky concludes that “It must be conceded that the original differs considerably from the copy, and that Hilferding’s arbitrary reproduction of these sentences is tantamount to a clumsy distortion of Marx’s real view”.¹⁴¹ The same can be said of Sweezy, who claims that use-value was excluded by Marx because it did not embody a social relation.¹⁴² Rosdolsky asserts that this is all the more unforgivable a distortion by Sweezy, since he had access to the Marginal Notes on A. Wagner,¹⁴³ where Marx states that ““Only a vir obscurus, who has not understood a word of Capital could conclude [that] use-value plays no role for him... use-value plays a far more important part in my economics, than in economics hitherto””.

Rosdolsky concludes that “It is clear from this that the traditional Marxist interpretation of Hilferding, Sweezy et al cannot possibly be correct, and that in this instance the authors mentioned above—without knowing it—do not follow their teacher, Marx, but rather Ricardo, the man he criticizes”.¹⁴⁴ According to Rosdolsky, what Marx meant by excluding use-value from political economy except when it is ‘a determinate form’, is that in the case of the simple exchange of commodity for commodity (in the C—M—C circuit), the use to which the exchanged commodities are put is of no interest.¹⁴⁵ However Marx states in the *Grundrisse* that it would be highly erroneous to conclude from this that the distinction between use-value and exchange value is never of relevance in economics.¹⁴⁶ Having given the example of the use-value of money as discussed by Marx, Rosdolsky comments that the second example given by Marx “is of decisive importance—the exchange between

¹³⁸ Ibid, pp. 73-74, quoting Hilferding, op. cit., p 130.

¹³⁹ *Contribution*, op. cit., p. 28. Emphasis added.

¹⁴⁰ The quote from Marx continues with the warning “but NB that it is only ever taken into account when this arises from the analysis of given economic forms, and not out of arguing backwards and forwards about the concepts of words ‘use-value’ and ‘value’”. Wagner, op. cit., p. 200.

¹⁴¹ Rosdolsky, op. cit., p. 74.

¹⁴² Ibid, p. 74, referring to Sweezy, op. cit., p. 26.

¹⁴³ Rosdolsky gives the references of MEW, Vol 1, pp 355-389, and *Theoretical Practice*, No. 5, Spring 1972. My reference is Carver, T.Karl Marx: Texts on Method, Basil Blackwell, Oxford, 1975, pp. 198-200. Sweezy also had access to Kautsky’s German edition of *Theories of Surplus Value*, where, as is shown later, Marx also makes copious use of the term use-value.

¹⁴⁴ Rosdolsky, op. cit., p. 76.

¹⁴⁵ Ibid, pp. 81-82, quoting *Grundrisse*, p. 267.

¹⁴⁶ Ibid, p. 82, referring to the *Grundrisse* pp. 646-7.

capital and labour”.¹⁴⁷ Here,

“it is precisely the use-value of the commodity purchased by the capitalist (i.e. labour power) which constitutes the presupposition of the capitalist production process and the capital relation itself. In this transaction the capitalist exchanges a commodity whose consumption ‘coincides directly with the objectification of labour i.e. with the positing of exchange value’”.¹⁴⁸

This is not the sole appearance of use-value within the domain of political economy. Referring to machinery, Rosdolsky comments that the durability of a machine becomes “a form determining moment” of the production process.¹⁴⁹ He makes further reference to the role of use-value in Marx’s analysis of the determination of ground rent, the accumulation of capital, supply and demand, and the meaning of “socially necessary labour time”.¹⁵⁰

Clearly, the concept use-value was not a peripheral item in Marx’s overall economic analysis. Together with the concepts of value and exchange value it formed an analysis of the commodity which Engels observed was “a classic example of the use of the ‘German dialectic method’”. Rosdolsky concluded with the hope that the proper acknowledgement of the role of use-value in Marx’s economics should lead “to a partial revision of previous interpretations of Marx’s theory”.¹⁵¹

The evidence on Marx’s application of the concept of use-value within his economics is in fact much more extensive, and much more accessible, than Rosdolsky’s survey indicates. Though it is most obvious in the *Grundrisse* and *Wagner*, the concept is evident in *Capital* and used repeatedly throughout the *Theories of Surplus Value*—both of which were available to the architects of the traditional interpretation, Sweezy, Meek and Dobb.

Capital

The First Strand

The opening sentence of *Capital* makes it clear that Marx sees the rest of his analysis as flowing from the analysis of the commodity.¹⁵² The first aspect of the commodity Marx discusses is its use-value, and he tenders the classical proposition that utility has no role in the determination of value.¹⁵³ Next he identifies use-value with wealth and describes use-values as the “material depositories of exchange value”.¹⁵⁴

¹⁴⁷ Ibid, p. 84.

¹⁴⁸ Ibid, p. 84, citing *Grundrisse*, p. 944 German edition.

¹⁴⁹ Ibid, p. 85, referring to the *Grundrisse*, p. 685. He also cites *Capital*, Vol II, pp. 170-71.

¹⁵⁰ Ibid, pp. 85-94.

¹⁵¹ Ibid, p. 95 both quotes, citing MEW, Vol 13, p. 476.

¹⁵² “The wealth of those societies in which the capitalist mode of production prevails, presents itself as “an immense accumulation of commodities,” its unit being the single commodity. Our investigation must therefore begin with the analysis of a commodity.”. *Capital*, op. cit., p. 43.

¹⁵³ “The utility of a thing makes it a use-value... This property of a commodity is independent of the amount of labour required to appropriate its useful qualities”. Ibid, p. 44.

¹⁵⁴ Ibid, p. 44. Later he makes the distinction between value and wealth, one which Ricardo before him made much of: “An increase in the quantity of use-values is an increase of material wealth. With two coats

Behind the relative concept of exchange value he sees absolute value. The source of this cannot be use-value: “the exchange of commodities is evidently an act characterised by a total abstraction from use-value”,¹⁵⁵ and at this stage he makes the negative discernment of which Böhm-Bawerk was so critical, to conclude that if use-value is not the “common property” of value, then the only common property left is “that of being products of labour”. Marx quickly disposes of the specific nature of labour to distil abstract human labour as the “residue” of all commodities.¹⁵⁶ Thus human labour in the abstract, undifferentiated by the type of labour, is the essence of absolute value.

This is one method of deriving the source of value and of surplus value, which corresponds partly to the thinking which Ricardo had previously demonstrated, which Böhm-Bawerk was to criticise, and which developed into the traditional interpretation of Marx. However there is a second stream to Marx’s reasoning as to the source of value, running parallel with this directly “Ricardian” one, which explains the existence of surplus value directly from the analysis of commodities, without any recourse to a prior definition of the source of value. This second stream, based on the dialectic between use-value and exchange value, is in fact the first method which Marx employs in *Capital* to show that surplus value emanates from labour. Unfortunately, Marx initially weds this dialectic to the twofold nature of labour, in a passage which can be read to favour either the interpretation made by Meek, that the distinction between useful labour and abstract labour is the fulcrum of Marx economics, or Rosdolsky’s interpretation, that the distinction between use-value and exchange value is the fulcrum. Marx says that

“At first sight a commodity presented itself to us as a complex of two things—use-value and exchange value. Later on, we saw that labour too, possesses the same two-fold nature; for, so far as it finds its expression in value, it does not possess the same characteristics that belong to it as a creator of use-values. I was the first to point out and to examine critically this two-fold nature of the labour contained in commodities. As this point is the pivot on which a clear comprehension of political economy turns, we must go more into detail”.¹⁵⁷

Meek’s interpretation of this single paragraph is probably correct. However, to Marx the pair of concepts—use-value/exchange value and useful labour/abstract labour—were consonant, and the former was definitely the more general.¹⁵⁸ It is definitely the former concept which Marx first uses to uncover the source of surplus value.¹⁵⁹

two men can be clothed, with one coat only one man. Nevertheless, an increased quantity of material wealth may correspond to a simultaneous fall in the magnitude of its value.” Ibid, p. 53.

¹⁵⁵ Ibid, p. 45.

¹⁵⁶ Ibid, p. 46.

¹⁵⁷ Ibid, pp. 48-49.

¹⁵⁸ There is support enough for this proposition in *Capital*, and in the *Grundrisse* the support is overwhelming.

¹⁵⁹ There is no doubt that, historically speaking, Marx first explained the source of surplus using the specific features of labour. However, once he had developed the notion of the dialectic between use-value and exchange value—in the *Grundrisse*—this general analysis took analytical priority over the particular. In *Capital* itself, the particular is definitely subsequent to the general proof.

The Second Strand

Like his predecessors Smith and Ricardo, Marx began his magnum opus with the proposition that use-value plays no role in determining exchange value. However rather than dismissing use-value from economics, Marx employed this lack of a relation between use-value and exchange value to derive the source of surplus value. For commodities consumed in the circuit of simple commodity exchange $C—M—C$, the lack of a relation between use-value and exchange value simply meant that the use-value of a commodity was qualitative, while its exchange value was quantitative, and that a commodity's qualitative utility played no part in determining its quantitative price. However, the use-value of labour power to its capitalist consumer in the circuit $M—C—M$ is quantitative—its ability to produce commodities—as is its exchange value—its cost of production, also measured in commodities. The lack of a relation between labour's quantitative use-value and its quantitative exchange value means that the two will normally be different, and this difference was the source of surplus value. Marx gradually approaches this proposition from a dialectical perspective, with the final proof reaching a crescendo in which the concept of use-value is far from absent.

As a prelude to divining the source of surplus value, Marx states the axiom that surplus must be explained on the basis of the exchange of equivalents,¹⁶⁰ then hammers the 'neoclassical' argument that increasing utility through exchange is a source of gain. While he agrees that "So far as regards use-values, it is clear that both parties may gain some advantage",¹⁶¹ this aspect of the transaction yields no change in exchange value for either party, and to Marx (and the classical school in general), this is the main object in capitalism.¹⁶² Thus exchange of itself cannot be a source of surplus value. However, circulation based on the exchange of equivalents must be the starting point from which the source of surplus value is deduced. The particular exchange he considers occurs in what Marx calls the circuit of capital, which he elsewhere describes as $M—C—M$.¹⁶³ The "change of value that occurs in the case of money intended to be converted into capital" must take place in the first phase, "M-C, but not in its value, for equivalents are exchanged, and the commodity is paid for at its full value." Marx implicitly employs dialectical logic here; if the value of the commodity cannot be the source of surplus, then the dialectical opposite of value, use-value, is the only possible source. He states this in his next sentence, which in itself is enough to establish beyond doubt that use-value played a crucial role in his economics. Having ruled out the possibility that the value (or exchange value) of the purchased commodity is the source of the capitalist's surplus (and hence profit), Marx says

¹⁶⁰ Ibid, p. 154.

¹⁶¹ Though not through the maximisation of "abstract utility", but because "Both part with goods that, as use-values, are of no service to them, and receive others that they can make use of". Ibid, p. 155.

¹⁶² "With reference, therefore, to use-value, there is good ground for saying that 'exchange is a transaction by which both sides gain.' It is otherwise for exchange value... 'This act produces no increase of exchange value ... for each of them already possessed, before the exchange, a value equal to that which he acquired by means of that operation'... If commodities, or commodities and money, of equal exchange value ... are exchanged, it is plain that no-one abstracts more value from, than he throws into, circulation. There is no creation of surplus value." Ibid, pp. 155-58.

¹⁶³ Money—Commodity—Money. Ibid, pp. 145-153.

that

“We are, therefore, forced to the conclusion that the change originates in the use-value, as such, of the commodity, i.e. its consumption”.¹⁶⁴

Immediately after this sentence comes the one which Meek cited when discussing Marx’s proof that labour power is the unique commodity “whose use-value possesses the peculiar property of being a source of value”, in the only acknowledgement made by the traditional interpreters of the use of the concept by Marx.¹⁶⁵ As Marx was “forced to the conclusion” that the source of surplus must be found in the use-value of a commodity, so interpreters of Marx should have been forced to the conclusion that use-value does play a crucial role in Marx’s economics, though one which differs substantially from its role in what he termed “vulgar economics”.

There are many other instances where Marx actively employs the concept of use-value, in addition to this crucial instance where its role in divining the source of surplus is stated. Examining labour power, Marx considers the peculiarity that its consumption by its purchaser is not immediate, and yet the use normally precedes the payment for it.¹⁶⁶ Turning to the perspective of the capitalist purchaser, Marx further emphasises the centrality of use-value to his thinking. He describes the consumption of the use-value of labour power as the source of surplus value:

“The use-value which the former gets in exchange, manifests itself only in the actual usufruct, in the consumption of the labour power. The consumption of labour power is at one and the same time the production of commodities and of surplus value”.¹⁶⁷

Marx continues to employ the term use-value to describe what Sraffa would later term “The production of commodities by means of commodities”.¹⁶⁸ He reiterates that the use-value

¹⁶⁴ Ibid, p. 164. Emphasis added.

¹⁶⁵ The quote continues “In order to be able to extract value from the consumption of a commodity, our friend, Moneybags, must be so lucky as to find, within the sphere of circulation, in the market, a commodity, whose use-value possesses the peculiar property of being a source of value, whose actual consumption, therefore, is itself an embodiment of labour, and consequently, a creation of value. The possessor of money does find on the market such a special commodity in capacity for labour or labour power.” Ibid, p. 164. Emphases added. Meek cites this in Meek, op. cit., p. 183, citing p. 145 of his edition of *Capital*.

¹⁶⁶ “its use-value does not, on the conclusion of the contract between the buyer and seller, immediately pass into the hands of the former... its use-value consists in the subsequent exercise of its force. The alienation of labour power and its actual appropriation by the buyer, its employment as a use-value, are separated by an interval of time... the use-value of the labour power is advanced to the capitalist.” *Capital*, op. cit., p. 170.

¹⁶⁷ Ibid, p. 172.

¹⁶⁸ “If we examine the whole process from the point of view of its result, the product, it is plain that both the instruments and the subject of labour, are means of production, and that the labour itself is productive labour. Though a use-value, in the form of a product, issues from the labour process, yet other use-values, products of previous labour, enter into it as means of production. The same use-value is both the product of a previous process, and a means of production in a later process.” Ibid, pp. 176-77.

of a commodity is to be assessed from the point of view of its purchaser and the use to which the purchaser puts it, which in the case of purchase by a capitalist is a productive use.¹⁶⁹

After restating that labour power is the measure of the value, Marx describes the transaction between capitalist and worker over labour power as in form no different to that between any other two parties over any other commodity.¹⁷⁰ He again uses the quantitative difference between the exchange value of labour power and its use-value to uncover the source of surplus value in this transaction. This is the first instance in which he uses the actual characteristics of the commodity labour power to show the source of surplus, but even here this particular proof is intertwined with the general.

“The past labour that is embodied in the labour power, and the living labour that it can call into action; the daily cost of maintaining it, and its daily expenditure in work, are two totally different things. The former determines the exchange value of the labour power, the latter is its use-value. The fact that half a [working] day’s labour is necessary to keep the labourer alive during 24 hours, does not in any way prevent him from working a whole day. Therefore, the value of labour power, and the value which that labour power creates in the labour process, are two entirely different magnitudes; and this difference of the two values was what the capitalist had in view, when he was purchasing the labour power... What really influenced him was the specific use-value which this commodity possesses of being a source not only of value, but of more value than it has itself. This is the special service that the capitalist expects from labour power, and in this transaction he acts in accordance with the ‘eternal laws’ of the exchange of commodities. The seller of labour power, like the seller of any other commodity, realises its exchange value, and parts with its use-value”.¹⁷¹

The quantitative difference between the use-value and exchange value of labour power is the direct consequence of Marx’s initial classical proposition that use-value and exchange value are unrelated. In the case of a commodity purchased by ordinary consumers, the use-value of the commodity is qualitative, while its exchange value is necessarily quantitative. However in the case of labour power purchased by a capitalist, the use-value—the ability of the labourer to produce commodities—is quantitative, as is the exchange value. The general lack of a relation between use-value and exchange value translates in this totally quantitative instance into the inequality of use-value and exchange value, and it is from this inequality that surplus value arises. While it is conceivable that the use-value of labour power could equal its exchange value, it will normally be the case that its use-value will

¹⁶⁹ “Hence we see, that whether a use-value is to be regarded as raw material, as instrument of labour, or as product, this is determined entirely by its function in the labour-process, by the position it there occupies; as this varies, so does its character.”Ibid, p. 178.

¹⁷⁰ “Suppose that a capitalist pays for a day’s labour power at its value; then the right to use that power for a day belongs to him, just as much as the right to use any other commodity, such as a horse, that he has hired for the day. To the purchaser of a commodity belongs its use, and the seller of labour power, by giving his labour, does no more, in reality, than part with the use-value that he has sold.” Ibid, p. 180.

¹⁷¹ Ibid, p. 188. Emphasis added.

exceed its exchange value, yielding surplus for the capitalist.

Marx reiterates that this extraction of surplus in no way violates the initial condition, that exchange is based on the transfer of equivalents.¹⁷² Finally, Marx completes the logical circle begun with the statement “These are the conditions of the problem”:¹⁷³

“Every condition of the problem is satisfied, while the laws that regulate the exchange of commodities, have been in no way violated. Equivalent has been exchanged for equivalent. For the capitalist as buyer paid for each commodity ... its full value. He then did what is done by every purchaser of commodities; he consumed their use-value. ”

This derivation of the source of surplus value using the dialectic of commodities both textually and logically permeates and precedes the derivation of surplus value using the particular features of the commodity labour power, which the traditional interpretation has in the past seen as Marx’s sole method of derivation.

Wagner

If there is room for doubt on Marx’s method in *Capital*, it is entirely dispelled in his acerbic commentary on an early bourgeois critic, Adolph Wagner.¹⁷⁴ The sole quotation made by Rosdolsky from Wagner, that “Only a vir obscurus, who has not understood a word of *Capital* could conclude: ... therefore use-value plays no role for [Marx]”,¹⁷⁵ is evidence enough.

Marx also provides an important clue to understanding his statement in the Contribution that use-value belongs to the sphere of political economy only when it is itself a determinate form,¹⁷⁶ saying that under capitalism “use-value itself—as the use-value of a ‘commodity’—possesses a historically specific character”.¹⁷⁷ It cannot be argued that Marx was simply defending his use of use-value as a pre-requisite to exchange here, since at the end of that same paragraph he provides a commentary on the method by which he derived the existence and source of surplus value, stating that “surplus value itself is derived from a specific and exclusive use-value of labour power”.¹⁷⁸

¹⁷² “The circumstance, that on the one hand the daily sustenance of labour power costs only half a day’s labour, while on the other hand the very same labour power can work during a whole day, that consequently the value which its use during one day creates, is double what he pays for that use, this circumstance is, without doubt, a piece of good luck for the buyer, but by no means an injury to the seller.” Ibid, p. 188.

¹⁷³ Ibid, p. 163.

¹⁷⁴ Ibid, p. 189. Emphasis added.

¹⁷⁵ First published as “Marginal Notes on Adolph Wagner” as an Appendix to the Marx-Engels-Lenin Institute edition of *Das Kapital*. My reference is Carver, op. cit.

¹⁷⁶ Rosdolsky, op. cit., p. 75.

¹⁷⁷ Contribution, op. cit., p. 28.

¹⁷⁸ Wagner, op. cit., p. 199.

¹⁷⁹ Ibid, p. 76.

Prior to this passage, Marx observed ironically on Wagner, saying that “and this same Wagner places me among the people according to whom ‘use-value’ is to be completely ‘dismissed’ ‘from science’”.¹⁷⁹ One wonders how Marx would have treated those who call themselves his followers, and yet on a vital point in Marx’s economics concur not with Marx, but with the man he ridiculed.

Theories of Surplus Value

Part I

Throughout the *Theories*, Marx uses the dialectic of the commodity—the dialectic between use-value and exchange value—as an analytic tool to highlight the weaknesses of previous doctrines.

In discussing the ahistorical nature of the Physiocratic doctrines, Marx observes that the development of dispossessed wage-labour is a pre-requisite for capitalism (as opposed to simple commodity production), and then turns to the question of the value of this newly created commodity, which is equal “to the labour-time required to produce the means of subsistence”. He then states why the development of this commodity is a necessity for capitalism:

“It is only on this basis that the difference arises between the value of labour power and the value which that labour power creates—a difference which exists with no other commodity, since there is no other commodity whose use-value, and therefore also the use of it, can increase its exchange value or the exchange values resulting from it”.¹⁸⁰

He comments that their definition of surplus was misplaced, being a surplus of use-values, rather than of exchange value; however, this was a necessary step towards the understanding of surplus proper under capitalism, since in agriculture it was possible to perceive surplus directly, in the difference between the use-values consumed by workers, and the use-values they produced.¹⁸¹ Marx charts the development of the Physiocratic view from surplus as a “gift of nature” to the stage where it is seen as the appropriation without equivalent of the surplus labour of the agricultural worker”.¹⁸²

¹⁷⁹ Ibid, pp. 197-98. In opening, Marx also linked Wagner to Rodbertus, on whom Engels was later to pass scathing judgment: “Rodbertus had written a letter to him ... where he, Rodbertus, explains why ‘there is only one kind of value’, use-value.... Wagner says: ‘This is completely correct, and necessitates an alteration in the customary illogical ‘division’ of ‘value’ into use-value and exchange value’”.

¹⁸⁰ *Theories*, Part I, op. cit., p. 45.

¹⁸¹ “So what they say is not: the labourer works more than the labour-time required for the reproduction of his labour power; the value which he creates is therefore greater than the value of his labour power; or the labour which he gives in return is greater than the quantity of labour which he receives in the form of wages. But what they say is: the amount of use-values which he consumes during the period of production is smaller than the amount of use-values which he creates, and so a surplus of use-values is left over.” Ibid, p. 51.

¹⁸² Eventually “surplus value is explicitly stated to be the part of the cultivator's labour which the proprietor appropriates to himself without giving any equivalent. Only what Turgot has in mind is not exchange value as such, ... but the surplus of products.” Ibid, p. 57.

Turning to Smith, he lauds him for the perception that in the transition from simple commodity exchange to the exchange between worker and capitalist, the law of exchange is somehow suspended, because “More labour is exchanged for less labour (from the labourer’s viewpoint)”.¹⁸³ However, Marx observes that Smith does not see

“how this contradiction arises, through labour power itself becoming a commodity, and in the case of this specific commodity its use-value—which therefore has nothing to do with its exchange value—is precisely the energy which creates exchange value”.¹⁸⁴

This is perhaps Marx’s clearest statement on the relationship between exchange value and use-value, and how this relationship is the source of surplus. Use-value and exchange value are unrelated. For most commodities, this lack of a relation is of no economic consequence, since the uses to which the commodities are put have no impact on the system of exchange; thus in general the use-value of commodities is not an economic issue. However the use-value of labour power to its capitalist consumer is its ability to produce other commodities for exchange, and hence to produce exchange value. Since the use-value of a commodity is in no way related to its exchange value, there will normally be a gap between the exchange value of labour power (the wage) and its use-value (its output of commodities). This difference is the source of surplus value.

Complimenting Smith as against his Physiocratic and other predecessors, Marx says that by seeing the commodity as a unity of use-value and exchange value, he is able to see that any labour is productive which creates a use-value for exchange¹⁸⁵—as opposed to the Physiocrats who measured value in terms of the accumulation of use-values. In his discussion of Smith’s nonetheless flawed concept of productive labour, Marx proceeds to discuss what the use-value of the labourer is from the point of view of the purchaser of labour power, the capitalist. As he later emphasises, it is the purchaser’s perspective which determines what the objective use-value of a commodity is, and in this case the useful nature of the labour is incidental: the true use-value of labour power to the capitalist is that this commodity contains more value than the exchange value he had to outlay to acquire it.¹⁸⁶

¹⁸³ “His [Smith's] merit is that he emphasises—and it obviously perplexes him— that with the accumulation of capital and the appearance of property in land ... something new occurs, apparently the law of value changes into its opposite.” Ibid, p. 87.

¹⁸⁴ Ibid, p. 88. Emphasis added.

“With Adam Smith, both conditions of the commodity—use-value and exchange value—are combined; and so all labour is productive which manifests itself in any use-value... As against the Physiocrats, Adam Smith re-establishes the value of the product as the essential basis of bourgeois wealth”. Ibid, pp. 173-74.

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¹⁸⁶ “the use-value of labour power to the capitalist as a capitalist does not consist in its actual use-value ... that it is spinning labour, weaving labour, etc.... What interests him in the commodity is that it has more exchange value than he paid for it; and therefore the use-value of the labour is, for him, that he gets back a greater quantity of labour-time than he has paid out in the form of wages.” Ibid, p. 156.

In a section entitled “The specific use-value of productive labour for capital”, Marx describes “the creation of surplus value for capital”¹⁸⁷ as the specific result of the capitalist production process. This results from exchange with productive labour, since more labour is appropriated than is given in exchange. Again he reiterates that the use-value of labour power for the capitalist is “its character as the element which creates exchange value,... that it represents a greater quantity [of value] than is contained in its price, that is to say, the value of labour power”.¹⁸⁸

As an aside, Marx makes a useful statement about the quantitative ratio of a labourer’s use-value (his capacity to work) to his exchange value (his cost of reproduction). Simply stating that use-value and exchange value are unrelated is not enough; it should also be the common rule that, in the instance where these two aspects of the commodity are quantitative, the former should exceed the latter:

“How very unproductive, from the standpoint of capitalist production, the labourer is who indeed produces vendible commodities, but only to the amount equivalent to his own labour power”.¹⁸⁹

Part II

One of Marx’s main criticisms of Ricardo is that he included too many of the actual relations of capitalism too early in his analysis—such as profit, wages, rent, etc.—and thus obscured from view the fundamental relation, of value.¹⁹⁰ In this context, Marx stated that the sole abstraction necessary to derive the existence and source of value was that of the commodity: “Thus one can see that in this first chapter [of *Principles*] not only are commodities assumed to exist—and when considering value as such, nothing further is required...”.¹⁹¹ This clearly implies that from the analysis of commodities alone, it is possible to derive the source of surplus value.

¹⁸⁷ Ibid, p. 399.

¹⁸⁸ Ibid, p. 399.

¹⁸⁸ Ibid, p. 400. He also distinguishes concrete labour from abstract, with the latter being responsible for the creation of value, and the basis of the use-value of labour power for the capitalist. “For it [capital], the use-value of labour power is precisely the excess of the quantity of labour which it performs over the quantity of labour which is materialised in the labour power itself and hence is required to reproduce it. Naturally, it supplies this quantity of labour in the determinate form inherent in it as labour which has a particular utility, such as spinning labour, weaving labour, etc. But this concrete character, which is what enables it to take the form of a commodity, is not its specific use-value for capital. Its specific use-value for capital consists in its quantity as labour in general, and in the difference, the excess, of the quantity of labour which it performs over the quantity of labour which it costs.” Ibid, p. 400. This should be contrasted with his identification of concrete labour with the use-value of the commodity it creates in *Capital*, and the manner in which Sweezy, Meek and Dobb treated the abstract labour/concrete labour distinction.

¹⁸⁹ Ibid, p. 406.

¹⁹⁰ See Steedman, op. cit., on this issue, who emphasises that Marx frequently criticised Ricardo as if he had the same definition of value as did Marx. However as I emphasise later, Marx was correct in the sense that his analysis of commodities is logically prior to the concepts of profit, etc.

¹⁹¹ *Theories of Surplus Value*, Volume II, op. cit., p. 168. See also Oakley, A. *Marx's Critique of Political Economy*, Volume II, Routledge and Kegan Paul, London, 1985, pp. 79-81.

A later observation on Ricardo shows the importance Marx attached to finding a theoretical foundation for surplus value—which the use-value-exchange value dialectic provided—rather than simply working from the presumption of surplus. He comments that while Ricardo employs and properly defines the term value, “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”.¹⁹² Later, when summarising Ricardo, Marx says that in Ricardo’s system, as in his own, the value of labour power is determined by the value of the means of subsistence, but then asks “But why? By what law is the value of labour determined in this way? Ricardo has in fact no answer, other than ... the law of supply and demand ... He determines value here, in one of the basic propositions of the whole system, by demand and supply—as Say notes with malicious pleasure”.¹⁹³

As for the acknowledged fact of surplus value, Marx claims that Ricardo takes it for granted, and proffers no explanation of why it arises:

“Ricardo starts out from the actual fact of capitalist production. The value of labour is smaller than the value of the product which it creates.... The excess of the value of the product over the value of the wages is the surplus value.... For him, it is a fact, that the value of the product is greater than the value of the wages. How this fact arises, remains unclear. The total working-day is greater than that part of the working day which is required for the production of wages. Why? That does not emerge”.¹⁹⁴

Clearly, Marx himself was unwilling to accept what his followers later ossified into the traditional interpretation of Marx, that a theory of value based on the exploitation of labour could be developed, without an axiomatic or dialectical basis from which the necessity of this exploitation was derived.¹⁹⁵

He employs the concepts of value and use-value to chastise Ricardo for talking of the “value” of minerals, when no labour has gone into their production, and hence from both Marx’s and Ricardo’s perspectives, they should contain no value—though they have obvious use-value. Marx notes that “Ricardo never uses the word value for utility or usefulness or “value in use”. Does he therefore mean to say that the “compensation” is paid to the owner of the quarries and coalmines for the “value” the coal and stone have before they are removed from the quarry and the mine—in their original state? Then he invalidates his entire doctrine of value. Or does value mean here, as it must do, the possible use-value and hence the prospective exchange -value of coal or stone?”¹⁹⁶

¹⁹² Theories , Volume II, op. cit., p. 190.

¹⁹³ Ibid, p. 400.

¹⁹⁴ Ibid, pp. 405-06.

¹⁹⁵ This does not mean that a theory was necessary to prove that surplus exists, but rather that Marx believed that an adequate theory of economics must divine the existence and source of the observable fact of surplus value.

¹⁹⁶ Ibid, p. 249.

Use-value also plays a prominent role as Marx discusses the input-output perspective on production under capitalism, a prelude to the same discussion in Volume II of Capital. Having noted the existence of capitalists who manufacture machines which have use-value only for other capitalists, he comments that “This is yet another example of how important is the analysis of use-value for the determination of economic phenomena.”¹⁹⁷

However despite this novel emphasis upon use-value (for a classical economist), Marx never lapses from his analytic employment of the term use-value into the “vulgar” error of seeing use-value as the purpose of capitalism:¹⁹⁸

“It must never be forgotten, that in capitalist production what matters is not the immediate use-value but the exchange value, and, in particular, the expansion of surplus value. This is the driving motive of capitalist production, and it is a pretty conception that—in order to reason away the contradictions of capitalist production—abstracts from its very basis and depicts it as a production aiming at the direct satisfaction of the consumption of the producers”.¹⁹⁹

Part III

Marx does not consider Sismondi in *Theories of Surplus Value*.²⁰⁰ Nonetheless he pays tribute to him while castigating Malthus for plagiarism, and as part of that tribute, Sismondi’s awareness of the “contradictions of use-value and exchange value” is mentioned.²⁰¹ Much of Marx’s method was to point out both the unity and the contradiction or separation in the processes of capitalism—his dialectic method. This compliment to Sismondi is a clear statement that such a dialectic lies in the contradiction between exchange value and use-value, in the dialectical unity of the commodity and its separate aspects of exchange value and use-value.

Turning to Mill, Marx derides his attempt to explain the wage relationship as simply the capitalist advancing the worker for his input into production, thus buying the worker’s share in the output. He takes this interpretation, says Marx, to overcome “the difficulty of

¹⁹⁷ Ibid, pp. 488-89.

¹⁹⁸ Except perhaps once; see later.

¹⁹⁹ Ibid, p. 495. This attitude, and the fact that Marx’s dialectic of the commodity requires that use-value play no role in determining exchange value, gives the lie to Morishima’s presumption that Marx “would have accepted the marginal utility theory of consumer demands if it had become known to him.” (Morishima, M. Marx’s Economics: A Dual Theory of Value and Growth, Cambridge University Press, Cambridge, 1973.) The marginal utility theory directly links subjective utility with price in determining the level of consumption, and this is utterly in contradiction with Marx’s method.

²⁰⁰ “because a critique of his views belongs to a part of my work dealing with the real movement of capital (competition and credit) which I can only tackle after I have finished this book”. *Theories*, Volume III, Part III, Progress Press, Moscow, 1971, p. 53.

²⁰¹ “Sismondi is profoundly conscious of the contradictions in capitalist production; he is aware that, on the one hand, its forms—its production relations—stimulate unrestrained development of the productive forces and of wealth; and that, on the other hand, these relations are conditional, that their contradictions of use-value and exchange value, commodity and money, purchase and sale, production and consumption, capital and wage-labour, etc., assume even greater dimensions as productive power develops.” Ibid, pp. 55-56. Emphasis added.

the Ricardian system according to which the worker sells his labour directly (not his labour power)".²⁰² His comment on this dilemma makes perhaps the best published statement of his derivation of surplus value prior to the publication of the *Grundrisse*:

“Mill’s artifice concerning wages has increased the difficulty of understanding the relationship between capitalist and worker (and hence the source of surplus value) “because the peculiarity of the result is no longer comprehensible in terms of the peculiarity of the commodity which the worker sells (and the specific feature of this commodity is that its use-value is itself a factor of exchange value, its use therefore creates a greater exchange value than it contains).” Use-value; dialectic with exchange value Use-value of labour

Marx comments that the other explanation which Mill could offer for profit (apart from profit upon alienation, with commodities selling for more than their value) would be that all commodities are sold at their value except when sold by a worker, when they exchange for less than their value. However this amounts to the hypothesis that unequal exchange on the basis of class is the source of profit, which is untenable as an explanation of surplus because “the law of value would be destroyed by the transaction between worker and capitalist”.²⁰³

Though Böhm-Bawerk would later criticise Marx for not conducting “an economico-psychological proof”, a discussion of why it is that producers act as if different use-values are in some way identical shows that there can be an “economico-psychological” element to Marx’s treatment of the commodity.²⁰⁴

After asserting that machinery and raw materials are not productive of value, Marx comments that “It is different with that part of capital which is exchanged against labour power. The use-value of labour power is labour, the element which produces exchange value.... the value which the capitalist receives from the worker in exchange is greater than the price he pays for this labour”,²⁰⁵ Marx finishes this discussion of machinery with a rather out of place but useful statement on use-value. As an aside to discussing accumulation, Marx comments that “Here is another example of how use-value as such acquires economic significance.”²⁰⁶

²⁰² “The [difficulty can be expressed as follows:] the value of a commodity is determined by the labour-time required for its production; how does it happen that this law of value does not hold good in the greatest of all exchanges, ... the exchange between capitalist and labourer? Why is the quantity of materialised labour received by the worker as wages not equal to the quantity of immediate labour which he gives in exchange for his wages?”

²⁰³ Ibid, p. 90, all above quotes. Emphasis added.

²⁰⁴ “These same circumstances (independent of the mind, but influencing it) which compel the producers to sell their products as commodities —circumstances which differentiate one form of social production from another—provide their products with an exchange value which (also in their mind) is independent of their use-value.” Ibid, p. 163.

²⁰⁵ Ibid, p. 178.

²⁰⁶ Ibid, p. 251-52.

Marx's discussion of money also relies heavily on the concept of use-value, and in contrast to his discussion of non-labour inputs to production, countenances that the use-value of money is that it can be a source of exchange value: "Just as in the case of labour power, the use-value of money here becomes that of creating exchange value, more exchange value than it itself contains."²⁰⁷ This is not seeing money as directly productive in the same sense as labour, but that the ownership of money can directly command part of the surplus which it will generate when employed by the borrower as capital.²⁰⁸

It is thus clear from Marx's consideration of other economists that the concept of use-value permeates his thinking. And as with much of Marx's thinking, the origin of this concept which so clearly delineates him both from Ricardo and from Marx's so-called followers can be found in the *Grundrisse*.

The Grundrisse

The Development

The *Grundrisse* constituted Marx's working notes for his intended magnum opus. As such, it shows the sequence in which his thoughts on economics developed better than any other reference. From the opening of the *Grundrisse*, it is clear that he had not by then fixed on a methodology, and that the concept of use-value was certainly not part of his then provisional methodology. He begins to discuss value and price on p. 136,²⁰⁹ and his discussion sets the ground for the roles of labour value and exchange value, though not yet use-value. At this stage the use-value aspect of the commodity is not enunciated, though the requirement that goods be qualitatively different is seen as a necessary pre-requisite to exchange.²¹⁰

The concept of use-value (if not the words) begin to enter the picture as Marx discusses

²⁰⁷ Ibid, pp. 457-58. However, see the quote on Ricardo and the use-value of coal, mentioned earlier. This section of the Theories can be regarded as Marx's development of a theory of credit and the existence of a separate finance sector, rather than the simpler gold-commodity analysis of money which dominates most of his writings on the subject. It is allied with a complex discussion of the relation between the rate of profit and the rate of interest, and how these vary over and to some extent cause the trade cycle.

²⁰⁸ On this point, immediately prior to the above discussion of interest, Marx draws an analogy between rent of land and interest: "Just as land has value because it enables me to intercept a portion of surplus value, ... so I pay for capital the surplus value which is created by means of it." (Ibid, p. 455.)

²⁰⁹ "The value (real exchange value) of all commodities (labour included) is determined by their cost of production, in other words by the labour time required to produce them". *Grundrisse*, op. cit., pp. 136-37.

²¹⁰ "Commodities as values are different from one another only quantitatively; therefore each commodity must be qualitatively different from its own value. Its value must therefore have an existence which is qualitatively distinguishable from it, ... because the natural distinctness of commodities must come into contradiction with their economic equivalence... As a value, the commodity is general; as a real commodity it is particular". Ibid, p. 141.

circulation.²¹¹ The term itself enters when discussing money,²¹² but it is still generally used as an incidental term. It is while developing the axiom that exchange is a transfer of equivalents by parties who are of equal standing in the contract (whatever their social class) that Marx begins to use the term use-value actively in discussing the formation of an exchange:

“If individual A had the same need as individual B, and if both had realised their labour in the same object, then no relation whatever would be present between them... Only the differences between their needs and between their production gives rise to exchange and their social equation in exchange;... Regarded from the standpoint of the natural difference between them, individual A exists as the owner of a use-value for B, and B as owner of a use-value for A... so that they stand not only in an equal, but also in a social, relation to one another”.²¹³

The Revelation

Oakley observes that Marx provided a third draft structure of his grand plan of analysis on p. 264 of the *Grundrisse*, only to replace this with a distinctly Hegelian alternative on p. 275. While this Hegelian structure was not followed in practice, at the same time Marx wrote to Engels that he had re-read Hegel’s *Logic*, and that this had affected his method.²¹⁴ The strongest evidence of the importance of this Hegelian influence on Marx occurs in the intervening pages between these two draft structures, where the possibility that use-value might play a crucial role in economics first occurs to Marx as he discusses the relation between labour and capital. Marx notes that, for capitalism to function, labour has to be unable to produce directly for itself, because in the latter case it would produce not commodities but use-values only.

In a footnote to this passage, he muses in a distinctly Hegelian way that use-value, noted as a characteristic of the commodity by Smith and Ricardo and promptly forgotten, may indeed play a determinate role in economics. This first discussion of the role of use-value could also have been written as a critical commentary on the rejection of its role by Hilferding and Sweezy. While couched as an idea which has to be explored, it already contains all the essentials of the tool with which, in *Capital* and *Theories of Surplus Value*, he was to triumphantly uncover the source of surplus. This footnote is clearly the point at which Marx first fully conceived the role that use-value could play in economic analysis,

²¹¹ “Circulation as the realisation of exchange value implies: (1) that my product is a product only in so far as it is for others; hence suspended singularity, generality; (2) that it is a product for me only in so far as it has been alienated, become for others; (3) that it is for the other only in so far as he himself alienates his product; which already implies (4) that production is not an end in itself for me, but a means.” Ibid, p. 196.

²¹² “It is not at all apparent on its face that its character of being money is merely the result of social processes: it is money. This is all the more difficult since its immediate use-value for the living individual stands in no relation whatever to this role, and because, in general, the memory of use-value, as distinct from exchange value, has become entirely extinguished in this incarnation of pure exchange value”. Ibid, pp. 239-40.

²¹³ Ibid, pp. 242-43.

²¹⁴ Oakley, A. *The Making of Marx's Critical Theory*, Routledge and Kegan Paul, London, 1983, pp. 62-63.

as part of a dialectical analysis of commodities:

“Is not value to be conceived as the unity of use-value and exchange value? In and for itself, is value as such the general form, in opposition to use-value and exchange value as particular forms of it? Does this have significance in economics? Use-value presupposed even in simple exchange or barter. But here, where exchange takes place only for the reciprocal use of the commodity, the use-value, i.e., the content, the natural particularity of the commodity has no such standing as an economic form. Its form, rather, is exchange value. The content apart from this form is irrelevant; is not a content of the relation as a social relation. But does this content as such not develop into a system of needs and production? Does not use-value as such enter into the form itself, as a determinant of the form itself, e.g. in the relation of capital and labour? the different forms of labour?—agriculture, industry, etc.—ground rent?—effect of the seasons on raw product prices? etc. If only exchange value as such plays a role in economics, then how could elements later enter which relate purely to use-value, such as, right away, in the case of capital as raw material, etc.? How is it that the physical composition of the soil suddenly drops out of the sky in Ricardo? The word ware [commodity] (German Guter [goods] perhaps as denree [good] as distinct from marchandise [commodity]?) contains the connection. The price appears as a merely formal aspect of it. This is not in the slightest contradicted by the fact that exchange value is the predominant aspect. But of course use does not come to a halt because it is determined only by exchange; although of course it obtains its direction thereby. In any case, this is to be examined with exactitude in the examination of value, and not, as Ricardo does, to be entirely abstracted from, nor like the dull Say, who puffs himself up with the mere presupposition of the word ‘utility’. Above all it will and must become clear in the development of the individual sections to what extent use-value exists not only as presupposed matter, outside economics and its forms, but to what extent it enters into it. Proudhon’s nonsense, see the ‘Misere’.²¹⁵ This much is certain: in exchange we have (in circulation) the commodity—use-value—as price; that it is, apart from its price, a commodity, an object of need, goes without saying. The two aspects in no way enter into relation with each other, except in so far as the particular use-value appears as the natural limit of the commodity and hence posits money, i.e., its exchange value, simultaneously as an existence apart from itself, in money, but only formally. Money itself is a commodity, has a use-value for its substance”.²¹⁶

The sentence “Does this have significance in economics?” clearly indicates the novelty of

²¹⁵ This refers to what Marx saw as Proudhon's childish attempt to apply a Fichtean dialectic to the analysis of the commodity, using use-value and exchange value as thesis and antithesis, with value being the conflict-resolving synthesis. See Marx, K. *The Poverty of Philosophy*, Charles Kerr, Chicago, pp. 34-55 (no date given).

²¹⁶ *Grundrisse*, op. cit., footnote pp. 267-68. Boldface emphases added.

this insight to Marx.²¹⁷ He quickly passes over the obvious—the only manner in which Sweezy et al argued that Marx envisaged a role for use-value, as a pre-requisite to exchange—and later dismisses this as “mere presupposition”.²¹⁸ He considers that perhaps in the central social relation in capitalism, that of labourer to capitalist, use-value could play a determinate role: “Does not use-value as such enter into the form itself, as a determinant of the form itself, e.g. in the relation of capital and labour?” This sentence is obviously the precursor to the sentence in the *Contribution* which Hilferding and Sweezy omitted when justifying the exclusion of use-value from political economy. “Use-value as such, since it is independent of the determinate economic form, lies outside the sphere of investigation of political economy. It belongs in this sphere only when it is itself a determinate form”.²¹⁹ It also more clearly explains the significance of the omitted second sentence. The preceding discussion of barter indicates that, under simple commodity production, use-value is not an economically determinate form, because the object of the exchange is to acquire use-values, not to accumulate exchange value. The incommensurability of use-value and exchange value is the incommensurability between something qualitative and something quantitative.²²⁰

However, under capitalist commodity relations, use-value becomes a determinate form in political economy in the relationship between capital and labour because the incommensurability of the use-value and exchange value of labour power is expressed as a quantitative difference, from which the capitalist can derive surplus. From this it is evident that, when Hilferding and Sweezy dismissed use-value as an unimportant issue under capitalism, they were in fact making a judgment which, according to Marx, only had relevance to simple commodity production—not to capitalism.

At this early stage in the application of the concept, Marx envisages that use-value may be a determinate economic form elsewhere than just in the capital-labour relationship. He considers several other aspects of capitalism to which the concept could be applied, only one of which was finally developed—the distinction between abstract and concrete labour.²²¹

He notes that the word commodity “contains the connection”, a key observation since later, when composing the *Contribution* and *Capital*, he was to decide that the commodity was the best place from which to start the analysis of capitalism. Next, he specifically excludes

²¹⁷ However it develops rapidly in this footnote, and use of the concept likewise accelerates in the main text.

²¹⁸ Ibid, p. 852.

²¹⁹ *Contribution*, op. cit., p. 28.

²²⁰ “Use-value presupposed even in simple exchange or barter. But here, where exchange takes place only for the reciprocal use of the commodity, the use-value, i.e., the content, the natural particularity of the commodity has no such standing as an economic form.”

²²¹ The relevant excerpt is “Does not use-value as such enter into the form itself, as a determinant of the form itself, e.g. in the relation of capital and labour? the different forms of labour?—agriculture, industry, etc.—ground rent?—effect of the seasons on raw product prices? etc.” (though the distinction here could have referred to different types of labour in different industries). As noted above, he also employed the concept to discuss money in *Theories*, though this was not continued into *Capital* itself.

himself from three companies: that of Ricardo (and Smith) who noted the existence of use-value but then ignored it; Say, who turned use-value into his explanation of exchange and of value; and Proudhon, who had previously made a flawed attempt to develop a dialectic of commodities. Thus, unlike his classical predecessors, Marx willingly contemplates a role in economics for use-value, while in contrast to those he accuses of “vulgar economy”, he argues that use-value plays no direct role in determining the rate of exchange.²²²

This one footnote alone indicates that the pre-Rosdolsky interpretation of Marx’s treatment of use-value is grossly at error. Continuing use of the concept by Marx—and in particular use of the dialectic between use-value and exchange value, which manifests itself only in exchanges to which a capitalist is party—shows just how central this concept became to his thinking.

The Application: The Dialectic of the Commodity

Marx’s dialectic, derived from Hegel without the latter’s ontology, argues that in every social unity material forces will initially bring one aspect of that unity to the foreground, and that this necessarily pushes the other aspects of the object into the background. However, the unity can neither exist nor be fully understood with just that aspect, so there will be a dynamic tension between that aspect and its background (its opposite) which propels the development of the social system itself. If the conflict is sufficiently powerful (or if it is related to other more powerful dialectical forces) it may lead to a transcending of the limitations of this unity, to bring about another, greater unity, which will itself have its own dialectic. This transcendence can lead to the transformation of society itself.²²³

Marx’s analysis of the commodity is a classic example of this dialectical logic, and it interlocks with several other key dialectical concepts to explain not simply the source of surplus value, but also the rise of capitalism out of feudal society. A good or service is a unity, which in all societies contains both the useful purpose to which it can be put, and the effort required to produce it. In feudal society, the former aspect, its use-value, is brought to the fore.²²⁴ This however results in the relative suppression of its other aspect, its value.²²⁵ The institutions of these societies are founded not on the exchange of equivalents

²²² “The two aspects in no way enter into relation with each other”.

²²³ The popular description of the dialectic as involving a thesis, its antithesis, and finally a synthesis, is in fact derived from Fichte rather than Hegel or Marx. For informative discussions of the role of dialectics in Hegel and in Marx, see especially Wilde, L. *Marx and Contradiction*, Averbury, Aldershot, 1989. See also the article by George, M., “Marx’s Hegelianism: An exposition”, in Lamb, D., ed., *Hegel and Modern Philosophy*, Croom Helm, London, 1987. A useful introduction to Hegel is provided by Singer, P. *Hegel*, Oxford University Press, Oxford, 1983, though he does use the thesis-synthesis-antithesis analysis.

²²⁴ This is not to argue that the extraction of surplus was not a facet of feudalism, but rather that this extraction concentrated on the generation of use-values for the feudal elite, rather than on the accumulation of exchange value.

²²⁵ Marx frequently argued that feudal and slave societies were ineffective systems for the mass production of goods, and therefore could only cater to the desires of a minority (though he also affirmed that under feudal society the serfs frequently had guarantees of land, etc., which enabled them to produce a better income for themselves than a worker could under wage capitalism), so that capitalism with its focus on the production of value was a necessary stage in the development of a society where the material desires of all could be adequately met.

but on customary exchange, which restricts the sphere of the transfer of goods to the immediate geographic region where custom can rule. Thus the feudal lord can draw goods and services from his own fief, and the king from his kingdom, but to procure goods from outside these regions, non-feudal institutions of exchange must exist which allow the transfer of goods across feudal boundaries. Feudalism was also a vertical society,²²⁶ whereas there was still a need for the horizontal transfer of goods, since not even the serfs could be completely self-sufficient. There was thus the dialectic that for feudal society to function it needed non-feudal institutions of exchange—merchants and markets, both inter and intra-fief—for the circulation of goods.²²⁷

This dialectic of circulation provided the dynamism out of which grew capitalist relations within the rubric of feudal society, focused on the production of value, whereas the surrounding society and its institutions focused on the production and expropriation of use-value.²²⁸ These relations found the custom-based and geographically specific institutions of feudalism a fetter to their development, and thus this dialectic contained the dynamism necessary to transform society.²²⁹ Out of the fetters of feudalism arose the capitalist system, which promotes the value aspect of the good and denigrates the useful aspect, thereby transforming the good into the commodity. Now the dialectic of the commodity takes on a new form, where the use-value of the commodity labour power has an economic significance—a significance which it did not have in feudal society. From the dialectic of the commodity in general and labour power in particular, from the unity of use-value and value and the absence of a role for use-value in determining value, this society extracts surplus value, its motive force. Since Marx also believed that labour power was the only source of surplus value, and that capitalism tended to replace labour power with constant capital, this dialectic was wedded to another with the power necessary to transform capitalism into a higher form of society, socialism, with its own dialectic which would propel it into communism.²³⁰

Marx had already worked out much of this social dialectic before writing the *Grundrisse*. However, the key dialectic of the commodity unified and provided concrete explanations for the forces which had led to the transformation of feudal society into capitalist, and

²²⁶ Unlike the caste system of India, where the rule that your birth determines your work provides a degree of horizontal provision of services to people on the same social level.

²²⁷ See Wilde, op. cit., p. 31.

²²⁸ However the mere existence of this dialectic does not guarantee the transformation of feudal society; this also depends on the power of the feudal system itself. See Mandel's discussion of the Asiatic mode of production, Mandel, op. cit., pp. 116-139.

²²⁹ This dialectical analysis can also be seen to lie behind the base/superstructure debate, which seen in this light is a rather sterile rendition of Marx's dynamic vision.

²³⁰ Communism, in Marx's vision, was in no further need of transformation, nor did it contain a dialectic. This belief in a final form of society shows that Marx shared with Hegel the 19th century determinist optimism, which perceived that history was a necessary progression from lower to higher forms of organisation, culminating eventually in a form of society that was above the contradictions of all previous history. Hegel, with his particular definition of freedom and his idealism, believed that such a state had arrived with the Prussian administration. Marx believed that such a state would arise from the dialectics of capitalism. In a way this belief contradicted their own dialecticism, since they both believed in a society in which dialectics could cease to exist.

which Marx believed were now transforming capitalism itself. Through much of the *Grundrisse* subsequent to this discovery, Marx can be seen returning to issues which he had previously considered, and using the dialectic of commodities to provide a firm foundation for his earlier views.

He uses this dialectic of commodities to clarify his reasons for previously concluding that amassing exchange value could not be the object of transactions under simple commodity production (the C—M—C circuit)

“because use-value does not stand as such opposite exchange value, as something defined as use-value by exchange value; while inversely use-value as such does not stand in a connection with exchange value, but becomes a specific exchange value only because the common element of use-values —labour-time—is applied to it as an external yardstick... It must now be posited that use-value as such becomes what it becomes through exchange value, and that exchange value mediates itself through use-value”.²³¹

Distinguishing the capital-labour relation from other capital commodity relations, Marx comes to an important issue in dialectical logic: once an aspect of an object has been identified as that which society brings to the foreground, it is vital that the aspect which is pushed into the background, its opposite, is properly identified.²³² Having clearly identified capital as the key relation in capitalism, and exchange value as the aspect of commodities that capital brings to the foreground, Marx concludes that the opposite of capital cannot be a particular commodity “but all commodities”:

“The only use-value, i.e. usefulness, which can stand opposite capital as such is that which increases, multiplies and hence preserves it as capital... the opposite of capital cannot itself be a particular commodity, for as such it would form no opposition to capital, since the substance of capital is itself use-value; it is not this commodity or that commodity, but all commodities”.²³³

He next concludes that the joint substance of all commodities “as commodities and hence exchange values, is this, that they are objectified labour... The only use-value, therefore, which can form the opposite pole to capital is labour”.²³⁴ He completes the dialectical expression by defining labour as non-capital: “The use-value which confronts capital as posited exchange value is labour. Capital exchanges itself, or exists in this role, only in connection with not-capital, the negation of capital, without which it is not capital; the real not-capital is labour”.²³⁵

In the body of the *Grundrisse* to which the footnote on use-value was related, Marx uses the concepts of use-value and exchange value in true dialectical fashion to characterise the

²³¹ *Grundrisse*, op. cit., p. 269.

²³² On this point see *The Poverty of Philosophy*, op. cit., pp. 39-46.

²³³ *Grundrisse*, op. cit., p. 271.

²³⁴ The passage continues “(to be exact, value creating, productive labour...)”. Ibid, p. 272.

²³⁵ Ibid, p. 274.

exchange between capitalist and worker.²³⁶ He then begins to apply it to the central issue: deriving the source of surplus value:

“If we consider the exchange between capital and labour, then we find that it splits into two processes which are not only formally but also qualitatively different, and even contradictory:

(1) The worker sells his commodity, labour, which has a use-value, and as a commodity, also a price, like all other commodities, for a specific sum of exchange values, specific sum of money, which capital concedes to him.

(2) The capitalist obtains labour itself, labour as value-positing activity, as productive labour; i.e. he obtains the productive force which maintains and multiplies capital, and which thereby becomes the productive force, the reproductive force of capital, a force belonging to capital itself’.²³⁷

He contrasts this with exchange under simple commodity production, where there is no motive to accumulate and where what the purchaser of a commodity does with it is “outside the economic relation”. However in the purchase of labour power by capital, “the use-value of that which is exchanged for money appears as a particular economic relation”.²³⁸ Marx then characterises the exchange between capital and labour as a two stage process of part exchange, and part appropriation: the capitalist pays the correct value for the commodity labour power, but the commodity labour power itself contains the ability to generate exchange value, which exceeds its purchase price.²³⁹

He turns to the fact that, in deciding what the objective use-value of a commodity is, it is the purchaser’s viewpoint alone which matters. Here, the use-value of labour power is determined by the capitalist purchaser, not the labourer:

“what the capitalist obtains from this simple exchange is a use-value: disposition over alien labour. From the worker’s point of view ... it is evident that the use which the buyer makes of the purchased commodity is as irrelevant to the specific form of the relation here as it is in the case of any other commodity, of any other use-value”.²⁴⁰ Later, Marx says that “The use-value of a thing does not concern its seller as such, but only its buyer. The property of saltpetre, that it can be used to make gunpowder, does not determine the price of saltpetre; rather, this price is determined by the cost of production of saltpetre, by the amount of labour objectified in it... The exchange value of labour ... is not determined by the use-

²³⁶ “In the relation of capital and labour, exchange value and use-value are brought into relation; the one side (capital) initially stands opposite the other side as exchange value, and the other (labour) stands opposite capital, as use-value.” Ibid, pp. 267-68.

²³⁷ Ibid, p. 274.

²³⁸ Ibid, p. 274-75.

²³⁹ “In the exchange between capital and labour, the first act is an exchange, falls entirely within ordinary circulation; the second is a process qualitatively different from exchange, and only by misuse could it have been called any sort of exchange at all . It stands directly opposite exchange; essentially different category.” Ibid, p. 275.

²⁴⁰ Ibid, pp. 281-82.

value of labour. It has a use-value for the worker himself only in so far as it produces exchange values. It has exchange value for capital only in so far as it has use-value. It is a use-value, as distinct from exchange value, not for the worker himself, but only for capital”.²⁴¹

Marx states that the separation of labour from property is a necessary prerequisite to this appropriating exchange. If the labourer had his own property, then he could consider producing for himself rather than the wage, and appropriate his own labour for himself, at greater gain.²⁴² Then occurs the passage noted by Rosdolsky, where Marx distinguishes himself from Ricardo precisely because the latter fails to employ the concept of use-value.²⁴³

In a long digression on the origins of capitalism, Marx yet again employs the concept of use-value. “It is not, then, simply the exchange of objectified labour for living labour which constitutes capital and hence wage labour, but rather, the exchange of objectified labour as value ... for living labour as its use-value, as use-value not for a specific, particular use or consumption, but as use-value for value”.²⁴⁴

While discussing the dilemma Smith constructed for himself through his use of labour commanded as the measure of value—that labour should be paid its full product—Marx acknowledges that Ricardo avoided it, but mocks his method. This critique once again demonstrates the importance which Marx attached to having an dialectic or axiomatic structure from which surplus can be derived.

“Ricardo, by contrast, avoids this fallacy, but how? ‘The value of labour, and the quantity of commodities which a specific quantity of labour can buy, are not identical.’ Why not? ‘Because the worker’s product ... is not = to the worker’s pay.’ I.e. the identify does not exist, because a difference exists... Value of labour is not identical with wages of labour. Because they are different. Therefore they are not identical. This is a strange logic. There is basically no reason for this other than it is not so in practice”.²⁴⁵

Marx contrasts his easy ability to derive the source of surplus value with Ricardo’s struggles to do the same.²⁴⁶ He then emphasises that it is vital to properly identify what is

²⁴¹ Ibid, pp. 306-07.

²⁴² “Labour posited as not-capital as such is: ... not-raw-material, not-instrument of labour, not-raw-product: labour separated from all means and objects of labour... Labour as absolute poverty: poverty not as shortage, but as total exclusion of objective wealth.” Ibid, pp. 295-96.

²⁴³ “We already saw, for example, that the distinction between use-value and exchange value belongs within economics itself, and that use-value does not lie dead as a simple presupposition, which is what Ricardo makes it do.” Ibid, p. 320.

²⁴⁴ Ibid, p. 469.

²⁴⁵ Ibid, p. 561.

²⁴⁶ “What the capitalist acquires through exchange is labour capacity ; this is the exchange value which he pays for. Living labour is the use-value which this exchange value has for him, and out of this use-value springs the surplus value and the suspension of exchange as such.” Ibid, pp. 561-62. Similarly, a throw away reference to Proudhon shows implicitly the importance Marx placed on deriving a logical basis for

the exchange value of a commodity and what is its use-value, at least in the case of the commodity labour power:

“Labour capacity is not = to the living labour which it can do, = to the quantity of labour which it can get done - this is its use-value. It is equal to the quantity of labour by means of which it must itself be produced. The product is thus in fact exchanged not for living labour, but for objectified labour, labour objectified in labour capacity. Living labour itself is a use-value possessed by the exchange value [,labour capacity,] which the possessor of the product [,the capitalist,] has acquired in trade”.²⁴⁷

In a passage which could have been written as a critique of Hilferding or Sweezy, Marx says:

“As we have seen in several instances, nothing is therefore more erroneous to assert that the distinction between use-value and exchange value, which falls outside the characteristic economic form in simple circulation, to the extent that it is realised there, falls outside it in general... Use-value itself plays a role as an economic category”. After making the second reference to Ricardo on use-value alluded to by Rosdolsky, Marx comments that “In the bourgeois economy, they [use-value and exchange value] are posited in specific distinctions and specific unities. The point is to understand precisely these specific, distinguishing characteristics”.²⁴⁸

Fixed capital too is discussed in terms of use-value and value, and Marx employs the concept of use-value to discuss the depreciation of machinery.²⁴⁹ In brackets and out of any obvious line of thought, he comments on use-value in a manner which provides background to the footnote in the *Contribution* where he dismisses the “German economic twaddle” on use-value.²⁵⁰ His final statement in the *Grundrisse* manuscript proper is

surplus: “the surplus value which causes all Ricardians and anti-Ricardians so much worry is solved by this fearless thinker simply by mystifying it, 'all work leaves a surplus', 'I posit it as an axiom'.. The fact that work goes on beyond necessary labour is transformed by Proudhon into a mystical quality of labour.” Ibid, p. 641.

²⁴⁷ Ibid, p. 576.

²⁴⁸ Ibid, pp. 646-47.

“Fixed capital ... realises itself as value only so long as it remains in the capitalist's hand as a use-value... In this respect, then, fixed capital also includes ... coal, oil, wood, grease, etc., which are completely destroyed in the production process, which only have a use-value for the process of production itself. The same materials, however, also have a use-value outside production, and can also be consumed in another way... They are fixed capital not because of the specific mode of their being, but rather because of their use.” Ibid, pp. 680-81.

²⁴⁹ “Fixed capital ... realises itself as value only so long as it remains in the capitalist's hand as a use-value... In this respect, then, fixed capital also includes ... coal, oil, wood, grease, etc., which are completely destroyed in the production process, which only have a use-value for the process of production itself. The same materials, however, also have a use-value outside production, and can also be consumed in another way... They are fixed capital not because of the specific mode of their being, but rather because of their use.” Ibid, pp. 680-81.

²⁵⁰ “(Political economy as to do with the specific social forms of wealth or rather of the production of wealth. The material of wealth, whether subjective, like labour, or objective, like objects for the satisfaction of natural or historical needs, initially appears as common to all epochs of production. This material

headed “Value”, and is marked “to be brought forward”—as indeed it was, to the opening words of both the *Contribution* and *Capital*. It clearly presents the dialectic of the commodity as the major intellectual discovery made by Marx in the course of composing the *Grundrisse*.

“The first category in which bourgeois wealth presents itself is that of the commodity. The commodity itself appears as unity of two aspects. It is use-value, i.e. object of the satisfaction of any system whatever of human needs. This is its material side, which the most disparate epochs of production may have in common, and whose examination therefore lies beyond political economy. Use-value falls within the realm of political economy as soon as it becomes modified by the modern relations of production, or as it, in turn, intervenes to modify them.... Now how does use-value become transformed into commodity? Vehicle of exchange value. Although directly united in the commodity, use-value and exchange value just as directly split apart. Not only does the exchange value not appear as determined by the use-value, but rather furthermore, the commodity only becomes a commodity, only realises itself as exchange value, in so far as its owner does not relate to it as use-value”.²⁵¹

Conclusion

The evidence that use-value played a pivotal role in Marx’s economics—in dialectical conjunction with exchange value—grows like an iceberg as we delve deeper into the development of Marx’s thought. When *Capital* alone was the only freely available source, it was possible, though difficult, to form the opinion that the concept of use-value and the analysis of commodities were peripheral to Marx’s thinking. Nonetheless, though a conceivable interpretation, it smacks of tardy scholarship, and as Rosdolsky observes, Hilferding was criticised for this by a conservative contemporary.²⁵² If Hilferding exhibited tardy scholarship as a “follower” of Marx, much worse must be thought of Sweezy, Meek and Dobb, who in addition to *Capital* had the *Marginal Notes on Adolph Wagner* and *Theories of Surplus Value* to work from.

therefore initially appears as mere presupposition, lying quite outside the scope of political economy, and falls within its purview only when it is modified by the formal relations, or appears as modifying them. What it is customary to say about this in general terms is restricted to abstractions which had a historic value in the first tentative steps of political economy, when the forms still had to be laboriously peeled out of the material, and were, at the cost of great effort, fixed upon as a proper object of study. Later, they become leathery commonplaces, the more nauseating, the more they parade their scientific pretensions. This holds for everything which the German economists are in the habit of rattling off under the category ‘goods’.)” Ibid, p. 852-53.

²⁵¹ Ibid, p. 881. Some emphasis added.

²⁵² Rosdolsky, op. cit., p. 74, note 8.

9. Re-appraisal of the Traditional Interpretation

Introduction

There can be no doubt that the traditional interpretation of Marx was ill-founded. The question thus arises as to how this interpretation came about, and why was it maintained for so long. Undoubtedly Marx's language played a large role in the rise of a rendering of his work which, in *Marginal Notes on A. Wagner*, he had vehemently criticised. Equally, the fact that the foundation of Marx's analysis (the dialectic between use-value and exchange value) could not in practice be manipulated to achieve the result that Marx alleged²⁵³ probably led to these arguments in the first seven chapters of *Capital* being skipped over in favour of the simple assertion that labour power was the only source of value. However, the interpretation also developed because Hilferding used it to counter the critique of a conservative opponent, who himself rejected Marx's initial premise that use-value plays no direct role in determining exchange value.

The continuation of the interpretation from that point on does not paint a complimentary picture of Marxist scholarship. Marxists prior to Sweezy had access to a limited range of Marx's voluminous writings, but by the time *The Theory of Capitalist Development* was composed, both the *Marginal Notes on A. Wagner* and *Theories of Surplus Value* were available to supplement *Capital* itself. The continuing misinterpretation of Marx against the weight of these references can at best be put down to prejudice preceding analysis.

Two curious facts which deserve further investigation arise from this historiography. The first is that, despite his supposed rejection of use-value as an economic category, Hilferding actually employed the dialectic properly to derive the thus far only satisfactory explanation of the reduction of skilled labour to unskilled labour in Marxist literature (though predictably, this has not been realised by subsequent authors, including a recent critic).²⁵⁴ The second is what appears to be Sweezy's active suppression of evidence of Marx's alternative, dialectical approach to the source of value.

Böhm-Bawerk

Böhm-Bawerk's failure to come to grips with Marx's classical theory of value is less remarkable than that of Hilferding. Böhm-Bawerk read Marx's work from the perspective of a school which gave use-value (utility) a direct role in determining exchange value (price). Marx's statement in *Capital* that "the exchange of commodities is evidently an act characterised by a total abstraction from use-value"²⁵⁵ appears from the perspective of that school as an unsupported and unwarranted assertion, and as a direct challenge to that school's theory of value. It is little wonder then that Böhm-Bawerk directly attacked that assertion, rather than taking it for granted and checking the logical consistency of Marx's application of it. Having taken that tack, it was natural to see Marx's entire method as one

²⁵³ See Chapter 5.

²⁵⁴ Harvey, P. , "The Value-creating Capacity of Skilled Labour in Marxian Economics", Review of Radical Political Economics , Volume 17 No. 1/2, 1985, p. 83.

²⁵⁵ *Capital* op. cit., p. 45.

of exclusion. First Marx excluded the products of nature, by focusing on commodities rather than use-values in general; then he excluded use-value from the determinants of value; he ignores all other common properties of goods²⁵⁶ to leave only one, that they are products of labour. From this perspective no proof is apparent, only exclusion.

The structure of Marx's *Capital* contributed significantly to the tendency of conservative critics to misinterpret his argument. Though much of his method involved criticising Ricardo, he intentionally left the bulk of his criticism to the fourth volume, published several decades after *Capital* itself as the *Theories of Surplus Value*. However, his method too was often agreement with Ricardo, and in *Capital* itself, where he did agree with Ricardo, he frequently took the Ricardian perspective for granted, rather than restating it. Thus he omitted all the arguments that Smith and Ricardo in particular had given for the proposition that use-value plays no role in determining exchange value. Had Marx expounded those views, then it could have been evident that the classical perspective had as much a priori appeal as the neoclassical, and was perhaps better suited to a production economy. Marx's theory of commodities could then have been evaluated on its own merits, rather than being so blithely dismissed on the basis of the contradictions which befell it once values had been left behind for prices.

However Böhm-Bawerk cannot be entirely excused for his approach. As the preceding chapter indicates, a careful reading of *Capital* shows many instances where Marx employs the concept of use-value, including the crucial one where he divines that labour power is the source of surplus. This clearly sits as a contradiction when compared to the opening statement, if it were taken to mean that use-value is not an active concept in Marx's economics; but this apparent contradiction received no attention from Böhm-Bawerk.

Hilferding

Hilferding mirrored the misinterpretation of Marx begun by Böhm-Bawerk, perhaps because like the Queen in *Hamlet*,²⁵⁷ he was too earnest in Marx's defence. Hilferding's enthusiastic attack on the value scheme of his opponent may have misled his own understanding of the Master, for in trying to deny that use-value could directly determine exchange value, he instead denied that use-value could play any role in economics. This overstated case, coupled with the unavailability of material which would clarify Marx's thinking, meant that Hilferding's "defence" did more to bury Marx's advances over Ricardo and Smith than any amount of conservative criticism.

However Hilferding's failure to understand Marx was not total. In his rejoinder to Böhm-Bawerk on the issue of the reduction of skilled labour to unskilled labour, he actually correctly applies Marx's dialectic of the commodity—in fact doing a more complete job

²⁵⁶ "The property of being scarce in proportion to demand also common... Or that they are all the subjects of demand and supply? Or that they are appropriated? Or that they are natural products... that they cause expense to their producers". Böhm-Bawerk, op. cit., p. 76.

²⁵⁷ "The lady doth protest too much methinks." *Hamlet*, Act 3 Scene 2 Line 229.

than Marx had himself.²⁵⁸ I return to this issue in section 5, below.

Sweezy

Introduction

In composing his “reasonably comprehensive analytical study of Marxian political economy”,²⁵⁹ Sweezy was able to draw on the 1934 Marx-Engels-Lenin Institute German edition of *Capital*, which included as an Appendix the *Marginal Notes on Adolph Wagner*,²⁶⁰ and Kautsky’s German edition of the *Theories of Surplus Value*. Despite the wealth of material contained in those works—and especially in *Wagner*—on the role of use-value in Marx’s economics, Sweezy chose to follow Hilferding, to the exclusion of this additional textual evidence. This cannot be put down to conservatism on the part of Sweezy; in many other respects he was an unconventional Marxist, quite willing to differ with majority opinion.²⁶¹ It could be argued that Sweezy simply regarded this as Marx “coquetting with the Hegelian mode of expression”, and disregarded it as irrelevant. However on the evidence Sweezy possessed on Marx’s own interpretation of his work, this would have been an unscholarly attitude. Furthermore, Sweezy’s treatment of one supposed quote from *Capital* implies that he not only ignored but consciously suppressed evidence on the role of use-value in Marx’s economics.

The Contribution

In the quote from the *Contribution* which Sweezy used to justify excluding use-value from “the sphere of political economy”, Sweezy, like Hilferding before him, omitted the crucial last sentence concerning use-value, that “It belongs in this sphere only when it is itself a determinate form”.²⁶² By itself this is simply an example of Sweezy repeating the mistake of his forebear, an all too common occurrence in Marxism. However Sweezy also had access to *Wagner*, where Marx commented that this conservative critic was a “vir obscurus”, who “had not understood a word of *Capital*” since he concluded that use-value played no role in Marx’s economics. In this philippic Marx refers to a footnote to the passage cited by Sweezy, a footnote which Hilferding too used to reach the same conclusion as *Wagner*.²⁶³ Had Sweezy been engaged in true scholarship, surely this reference alone would have been sufficient to make him challenge Hilferding’s interpretation of Marx.

²⁵⁸ Marx considered the issue of how the value of skilled labour is created, but did not discuss the issue of how this more expensive labour is also able to create more value than unskilled labour. See *Capital*, Volume I, op. cit., pp. 168-69 and 191-92.

²⁵⁹ Sweezy, *The Theory of Capitalist Development*, op. cit., p. v.

²⁶⁰ See Sweezy, *ibid.*, p. 386, Notes to Chapter II, note 8.

²⁶¹ Witness his treatment of the tendency of the rate of profit to fall, his underconsumptionist explanation for the cyclical and long-run crises of capitalism, and his espousal of Bortkiewicz’s solution to the transformation problem, which involved acceptance of the idea that Marx could make mistakes.

²⁶² *Contribution*, op. cit., p. 28.

²⁶³ Hilferding, op. cit., p. 130, note 1.

Capital

Useful Labour and Abstract Labour

As is now evident, Marx derived surplus value from the difference between the use-value and the value of this “special commodity ... labour power”.²⁶⁴ Use-value is an objective feature of the commodity in question, which must be nonetheless assessed from the point of view of its purchaser—since under a system of commodity production a commodity is normally not a use-value for its producer, but is a use-value for its purchaser.

Applying this to labour power, its use-value (from the point of view of its capitalist purchaser) is its ability to produce commodities from which the capitalist can realise exchange value. It is thus a quantitative use-value—witness Marx’s “lament” about how unproductive is a worker who produces “only to the amount equivalent to his own labour power”.²⁶⁵ However Marx also at one point in *Capital* associated the use-value of labour power with the specific utility of the good which it produced.²⁶⁶ This is the manner in which Sweezy interprets the use-value of labour power, and in this he has clearly been misled by Marx’s loose and complicated language. On this point, Sweezy says that

“Labour also has two other aspects, the one corresponding to the use-value and the other to the value of the commodity which it produces. To the commodity as a use-value corresponds labour as useful labour.... The labour, whose utility is thus represented by the value in use of its product, or which manifests itself by making its product a use-value, we call useful labour”.²⁶⁷

This paraphrase of Marx²⁶⁸ associates the use-value of labour power with the production of a useful commodity, rather than the creation of value for the capitalist. In fact this is an invalid analysis of exchange, where according to Marx, a non-use-value for the seller becomes a use-value for the purchaser and the transaction only affects the two immediate participants in the exchange. This argument portrays the use-value of labour power as a use-value for the person who buys the product of labour from the purchaser of labour—in other words, the use-value of labour power is being associated with a third party, who is not a direct party to the exchange between labour and capital.

Sweezy evidently fell for Marx’s loose language in the first half of this sentence, rather than following his logic to select the correct second statement. The first equates the use-value of labour power with the use-value of its product;²⁶⁹ the second says that the use-value of labour power is manifested by creating a product, not that the use-value of labour

²⁶⁴ *Capital*, Volume I, op. cit., p. 164.

²⁶⁵ *Theories*, Part I, op. cit., p. 406.

²⁶⁶ *Capital*, op. cit., p. 49.

²⁶⁷ Sweezy, op. cit., p. 28-29.

²⁶⁸ In fact the last sentence is a direct quote from p. 49 of *Capital*; the previous sentence paraphrases the section where Marx describes the “two-fold nature” of the “labour contained in commodities” as “the pivot on which a clear comprehension of political economy turns”. (*Capital*, op. cit., p. 49)

²⁶⁹ “Whose utility is thus represented by the value in use of its product”.

power is the specific product.²⁷⁰ However, having interpreted Marx in this fashion, Sweezy disposed of the importance of the use-value of labour power, by associating with useful properties of the product that labour eventually produces. This enables him to continue with his earlier rejection of Marx's preferred method of deriving the source of surplus value, the dialectic of the commodity. Sweezy instead was forced to rely on the logic of exclusion previously criticised by Böhm-Bawerk, and on the particular characteristics of the commodity labour power.

The Source of Surplus Value

Sweezy's "proof" that labour power is the only source of value had two components: a particular analysis of the commodity labour power;²⁷¹ and a methodology of exclusion by which he concludes that no other inputs could be source of value. At the close of his argument he makes a quote from *Capital* which supposedly supports his interpretation. Closer examination of *Capital* shows that the passage he cited in fact contradicts his opening claim, that use-value plays no role in Marx's economics. The passage as Sweezy excerpts it is as follows:

“Every condition of the problem is satisfied, while the laws that regulate the exchange of commodities, have been in no way violated. For the capitalist as buyer paid for each commodity, for the spindle, and the labour power, its full value. He sells his yarn ... at its exact value. Yet for all that he withdraws ... more from circulation than he originally threw into it”.²⁷²

In this “quote”, Sweezy deliberately omits, without admission, one crucial sentence²⁷³ which indicates that, contrary to Sweezy's assertion, Marx used the concept of use-value (within his general analysis of the commodity based on the dialectic between use-value and value) to show that labour power was a source of surplus value. The actual quote is as follows; the words omitted without attribution are highlighted in bold.

“Every condition of the problem is satisfied, while the laws that regulate the exchange of commodities, have been in no way violated. Equivalent has been exchanged for equivalent. For the capitalist as buyer paid for each commodity, for the cotton, the spindle and the labour power, its full value. He then did what is done by every purchaser of commodities; he consumed their use-value. The consumption of the labour power, which was also the process of producing commodities, resulted in 20lbs of yarn, having a value of 30 shillings. The capitalist, formerly a buyer, now returns to market as a seller, of commodities. He sells his yarn at eighteenpence, which is its exact value. Yet for all that he withdraws 3 shillings

²⁷⁰ “Or which manifests itself by making its product a use-value”. However neither statement by Marx can be considered especially illuminating.

²⁷¹ “In order to discover the origin of surplus value it is first necessary to analyse the value of the commodity labour power.” Sweezy, op. cit., p. 59.

²⁷² *Capital*, Volume I, p. 217.

²⁷³ In fact, four sentences are omitted.

more from circulation than he originally threw into it”.²⁷⁴

The first omitted sentence is not crucial; neither are the third or fourth. However, the second clearly links Marx’s derivation of surplus value to his general analysis of commodities: “He then did what is done by every purchaser of commodities; he consumed their use-value”. This sentence²⁷⁵ exists in the Charles Kerr edition which Sweezy cites as his reference. Its exclusion can hardly be excused as accidental, especially since it was done without attribution when two quite minor omissions²⁷⁶ are acknowledged.

It could also be argued that Sweezy may have simply excluded what he saw as confusing Hegelian terminology. While this would be acceptable in a paraphrase, it is not acceptable in a purported quote—again, especially since that quote acknowledges two quite minor omissions. Especially in light of the fact that Sweezy had read *Wagner*, it could be argued that Sweezy suppressed a sentence which could have somewhat muddled the interpretation he wished to give of Marx’s reasoning.²⁷⁷

Wagner

Rosdolsky comments that Sweezy’s failure to appreciate the role of use-value is “even less forgivable [than Hilferding’s], as not only did he have access to the *Theories of Surplus Value*, but also the *Marginal Notes on A. Wagner*, where Marx discusses the role of use-value in his economic theory in great detail”.²⁷⁸ And it does defy comprehension to imagine that anyone could read Wagner and not regard it as a condemnation of the proposition that use-value plays no role in Marx’s economics.

Yet this, apparently, is what Sweezy did. Not only did he read Wagner, but he quoted from it twice in the *Theory of Capitalist Development*.²⁷⁹ The quotes themselves were relatively trivial,²⁸⁰ but the second in particular is surrounded by strident denunciations of Wagner for asserting that use-value plays no role in Marx’s economics—precisely the case which Sweezy himself was making.

Sweezy’s first quote referred to exchange value requiring at least two commodities.²⁸¹

²⁷⁴ Sweezy has previously acknowledged that surplus value must be shown to exist with exchange of equivalents.

²⁷⁵ and its three “comrades-in-omission”.

²⁷⁶ of the phrase in italics within the sentence “He sells his yarn at eighteenpence, which is its exact value” and “3 shillings more”.

²⁷⁷ Subsequent to the publication of papers derived from this thesis, I corresponded with Sweezy over these omissions. His reply was that “The rationale was the usual one for omitting material from quoted matter, i.e. that it is irrelevant to the point being made” (Sweezy, personal correspondence, March 30, 1994). This reply does not address the point made above, that these significant excisions were not acknowledged, while two quite minor ones were.

²⁷⁸ Rosdolsky, op. cit., p. 75.

²⁷⁹ While Rosdolsky was aware that Sweezy had access to Wagner, he did not seem to realise that Sweezy actually quoted from it.

²⁸⁰ Though the second does discuss Marx’s commodity analysis, and mentions the concept of use-value.

²⁸¹ Sweezy, op. cit., p. 27.

While the surrounding text discusses Marx's analysis of commodities, it is phrased in such a way that, taken out of context, it could imply that use-value was an irrelevance. The full passage, with the section Sweezy quoted in bold, follows:

“Nowhere do I speak of ‘the common social substance of exchange value’ but [I] say, rather, that exchange values (exchange value does not exist unless [there are] at least two of them) represent something common to them [commodities] which is wholly independent ‘of their use-values’”.²⁸²

Sweezy's second quote from *Wagner* is a discussion of Marx's method.²⁸³ His excerpt is sandwiched between the satirical comment on Wagner that “and this same Wagner places me among the people according to whom ‘use-value’ is to be completely ‘dismissed’ ‘from science’”,²⁸⁴ and the comment that “only an obscurantist, who has not understood a word of *Capital*, can conclude: Because Marx, in a note to the first edition of *Capital*, overthrows all the German professorial twaddle on ‘use-value’ in general, and refers readers who want to know something about actual use-value to ‘commercial guides’,—therefore, use-value does not play any role in his work...”.²⁸⁵ The first comment precedes Sweezy's excerpt by two short sentences, the latter follows it by half a paragraph. It is inconceivable that Sweezy could have missed these statements; the best which can be said of his scholarship here is that he simply ignored them.

Conclusion

I find it difficult to conceive of any explanation of Sweezy's treatment of this fundamental aspect of Marx's thought which attributes good faith to his actions. If he was acting in good faith, then he has displayed remarkable academic incompetence in failing to see or to comprehend Marx's numerous statements on the role of use-value in his economics.²⁸⁶

Meek and Dobb

While Meek, like Sweezy, deserves criticism for having continued with Hilferding's uninformed analysis despite the copious evidence to the contrary available to him, his work is nonetheless the most considered of the traditional school.

His inability to recognise the role use-value plays in Marx's economics appears to emanate from the strength of his historical method. More so than Sweezy or Dobb, Meek emphasises Marx's debt to the classical economists who preceded him. An important part of that tradition was the proposition that use-value plays no role in determining exchange value. Since his purpose in writing *Studies* was to convince “sincere but sceptical”²⁸⁷ modern day economists, bred on the concept of marginal utility, that Marx's scheme had

²⁸² Wagner , op. cit., p. 183; Sweezy , op. cit., p. 27. The translations differ, but the meaning is the same.

²⁸³ Wagner op. cit., pp. 197-98.

²⁸⁴ Wagner op. cit., pp. 197-98.

²⁸⁵ Ibid, p. 198-99.

²⁸⁶ The preceding discussion has not considered the many statements on the role of use-value in the *Theories of Surplus Value*, which Sweezy also cited extensively.

²⁸⁷ Meek , op. cit., p. 7.

merit, it is to some extent understandable that he (like Hilferding) failed to see how Marx's use of use-value transcended the dismissal of this concept by his forebears and the "misuse" of it by his vulgar foes.

Meek's treatment of Marx's proposition that "the exchange of commodities is evidently an act characterised by a total abstraction from use-value"²⁸⁸ implies that he sees this as a lineal descendant of Smith's "diamond and water" statement. He believes that this proposition and the labour theory of value are essentially unprovable, at any rate by "a logical argument of the type used to prove a theorem in geometry".²⁸⁹

The proposition that use-value and exchange value are unrelated is unprovable. It is simply an axiom of the classical approach to economics, which can be justified as Ricardo justified it, by appeal to observable facts and to related propositions—such as the presumption of constant or increasing returns to scale, and the effect of competition on long run price—or as Meek justified it in terms of the light it casts upon important problems, but can never be conclusively proved. However the labour theory of value itself should be provable, in the sense that it should be possible to derive it from the set of axioms which go together to make up Marx's dialectical analysis of commodities.

Like Sweezy before him, Meek was to some extent justifiably diverted from developing a proper understanding of the use-value of labour power by Marx's discussion of abstract and concrete labour, and his ambiguous statement as to what the "pivot" of political economy was. Unlike Sweezy, he did not extend his failure to understand Marx's analysis of the use-value of labour power to the point where he omitted reference to that analysis. He correctly quotes Marx on the issue of the source of surplus value, including the reference to the source of value being a commodity "whose use-value possesses the peculiar property of being a source of value".²⁹⁰

In Dobb's major work, Marx's insight into the role of use-value in economics is lost completely. One could read it and believe that Marx did not have a concept of commodities, let alone of use-value, since neither concept is examined at all in his discussion of Marx. Like many of his contemporaries, Dobb appears to have been sidetracked by the complexities of the transformation problem from any consideration of the foundations from which the problem itself emanated. In a theoretical commentary on that issue alone, a failure to delve into the source material is understandable. But in a book with the ambitious title of *Theories of Value and Distribution since Adam Smith*, one would be entitled to expect that the author had properly consulted the fundamental references.²⁹¹

²⁸⁸ Capital, Volume I, op. cit., p. 45.

²⁸⁹ Meek, op. cit., p. 164.

²⁹⁰ Ibid, p. 183, citing Capital, p. 145.

²⁹¹ However it should be noted that Dobb published in the year that an English edition of the Grundrisse first became available (and Meek's second edition was published that same year); he cannot be criticised for not consulting that fundamental reference, though his treatment of *Capital*, *Wagner* and *Theories of Surplus Value* remains deficient.

The Reduction of Skilled Labour to Unskilled

Discussing Marx's reduction of skilled labour to unskilled labour, Böhm-Bawerk quotes Grabski as saying that "It is no fiction but a fact ... that an hour of skilled labour contains several hours of unskilled labour." However Böhm-Bawerk argues that if the labour which went into educating a workman simply reappeared in the product, then "there could only be actually five hours of unskilled labour in one hour of skilled labour, if four hours of preparatory labour went into every hour of skilled labour".²⁹² Thus, according to Böhm-Bawerk's interpretation of Marx's reasoning, the ratio of skilled labour to unskilled labour would in practice be at most of the order of two, and not, as Marx muses, of the order of six.²⁹³

Marx did not actually consider the mechanism by which skilled labour is reduced to unskilled labour, in *Capital* or any other work. Nonetheless, Böhm-Bawerk accurately characterises the reasoning subsequently used and the results reached by Sweezy and Meek, where they effectively followed the same procedure as Marx employed in considering the value contribution of the non-labour inputs to production.²⁹⁴ But though Harvey, a recent critic, attributes this technique to Hilferding, it in fact originated with Sweezy.

While Harvey accurately describes the procedure followed by Sweezy and Meek, his argument that Hilferding used the same method is based on an inadequate reading of Hilferding's work. Harvey says that for Hilferding,

"skilled labour is seen as an expenditure of simple labour to which is added (1) a proportionate share of the worker's own past simple labour spent learning the skill, and (2) a proportionate share of the direct and indirect labour of others who contributed to the training process.... In Hilferding's words an expenditure of skilled labour, 'signifies the expenditure of all the different unskilled labour which are simultaneously condensed therein'".²⁹⁵

Fortunately Harvey describes this as a "brief description" of Hilferding's method, which partially excuses it being so inaccurate. The full quote from Hilferding is:

"The labor of the technical educator thus transmits, not only value (which manifests itself in the form of a higher wage), but in addition its own value-creating power. The formative labours are therefore latent as far as society is concerned, and do not manifest themselves until the skilled labour power begins to work. Its expenditure consequently signifies the expenditure of all the different unskilled labours which

²⁹² Böhm-Bawerk, op. cit., pp. 84-85.

²⁹³ *Capital*, Volume I, op. cit., p. 192. In the *Contribution*, Marx suggested a ratio of three to one. *Contribution*, op. cit., p. 31.

²⁹⁴ "What is involved is essentially the same as what is involved in tracing the preservation of value embodied in means of production." Harvey, op. cit., p. 87.

²⁹⁵ *Ibid*, pp. 86-87.

are simultaneously condensed therein”.²⁹⁶

The opening sentence indicates that Hilferding distinguished between the transmission of the value of the education, and the transmission of its value-creating power—its use-value. Thus, despite his initial protestations that use-value plays no role in Marx’s economics, Hilferding actually applied Marx’s use-value/exchange value dialectic in his analysis of the reduction, to arrive at the conclusion that skilled labour could be worth multiples of unskilled labour in value terms.

To explain how education can increase both the value—and therefore the cost—of skilled labour and also the value-creating power of that labour—thus enabling an hour of skilled labour to produce much more value than an hour of unskilled labour—Hilferding refers to education transferring both value and use-value to the student. He first hypothetically reduces the labour of the tutor to “a number of unskilled labours”. Then he concludes that “The labour of the technical educator thus transmits, not only value (which manifests itself in the form of a higher wage), but in addition its own value-creating power”.²⁹⁷ In an expression which demonstrates the proper application of Marx’s use-value/exchange value dialectic, he characterises this value-creating power as the use-value of the technical educator:

“Unskilled labour, if applied to the production of a qualified or skilled labour power, creates on the one hand the value of this labour power... but on the other hand ... it creates a new use-value, ... that there is now available a labour power which can create value with all those potentialities possessed by the unskilled labours utilized in its formation.”

He reiterates this in the next sentence: training “thus creates on the one hand new value and transmits on the other to its product its use-value—to be the source of new value”.²⁹⁸

Hilferding thus argues that education passes on the use-value as well as the value of the education to the student. The latter increases the cost of the skilled labourer; the former increases the skilled labourer’s ability to generate value. With this explanation, Hilferding is comfortably able to conclude that skilled labour is worth multiples of unskilled labour in value creation terms. This concurs with Marx’s belief, expressed in *Capital Volume I*, that a skilled worker is worth perhaps six unskilled ones in value creation terms. However, while Hilferding’s argument is an admirable and effective application of Marx’s method to the problem of skilled labour, it is evidently in conflict with Hilferding’s opening gambit against Böhm-Bawerk that “use-value, lies outside the domain of political economy”,²⁹⁹ since Hilferding has just made extensive use of the concept to resolve an important issue in Marx’s economics. It is instructive to contrast Hilferding’s treatment of the reduction,

²⁹⁶ Hilferding , op. cit., p. 145.

²⁹⁷ Ibid, pp. 144-45.

²⁹⁸ Ibid, p. 145, both quotes.

²⁹⁹ Ibid, p. 130.

with that followed by Sweezy and Meek,³⁰⁰ since Hilferding illustrates the correct application of Marx's dialectic, while the others show the consequences of approaching the issue armed solely with the belief that labour is the only source of value.

Sweezy reduces skilled labour to a multiple of unskilled labour by a simple addition of the labourer's training time³⁰¹ to his working time. This results, as Sweezy's example attests, in a very limited ratio between the value of a skilled labourer and an unskilled one. A skilled worker, says Sweezy,

“expends in production not only his own labour ... but also indirectly that part of the labour of his teachers.... If the productive life of a worker is, say, 100,000 hours, and if into his training went the equivalent of 50,000 hours of simple labour (including his own efforts in the training period), then each hour of his labour will count as one and a half hours of simple labour”.³⁰²

Meek likewise argues that Marx “was simply saying (a) that the value of the skilled labour power was higher because it had cost more labour to produce; and (b) that because it had cost more labour to produce, it was able to create a product of a higher value. Marx evidently regarded the labour expended on training the skilled labourer as being stored up, as it were, in his person, to be manifested when he actually begins to work.” This would mean that training made precious little difference to value, and in effect this is what Meek concludes:

“there is little difficulty (at least in theory) in reducing skilled to unskilled labour.... If p hours is his expected productive life, and t hours of simple labour have been expended upon him and by him during the training period, then when he starts work each hour of his labour will count as hours of simple labour”.³⁰³

Both Meek and Sweezy succumb to the problem mentioned by Böhm-Bawerk, that if one simply sees education as transferring the hours spent in training into an identical number of hours in work, it is impossible to account for the significantly higher output of skilled labour. In Meek's algebraic expression, t would need to be five times p for skilled workers to be as many times more productive than unskilled as Marx assumes. Sweezy uses a very low multiple compared to that nominated by Marx, but even this entirely arbitrary ratio is unwarranted. If one takes the simplest and most intensive example of training, a four year one-on-one apprenticeship, both his example hours and his hypothetical ratio are unrealistic. With a 48 week year and a 40 hour week, total training hours for both trainer and apprentice sum to 15,360. If the average working life was 40 years, the educated apprentice would clock up a further 76,800 hours of labour. Using Meek's formula, this results in a pitiful skilled labour to unskilled ratio of 1.2 to 1.

³⁰⁰ Dobb, predictably, fails to mention the issue.

³⁰¹ Which includes the time spent by his trainers as well as his own time.

³⁰² Sweezy, op. cit., p. 43.

³⁰³ Meek, op. cit., p. 172, both quotes.

An accurate quantification of the Sweezy/Meek conversion of skilled labour into unskilled requires one amendment to Meek's simple formula: the input of the trainer must be counted as skilled input, which results in a slightly higher ratio. Meek's equation buries this issue of accounting for the trainer's input (which must itself be reduced to the equivalent of a number of hours of unskilled labour, as Hilferding points out) in his term t . The equations needed to solve the Sweezy/Meek reduction of skilled labour to unskilled are as follows:

$$TT = (SP + TP) \times TH$$

$$UWH = H \times W \times UY$$

$$SWH = H \times W \times SY$$

$$SP = \frac{SWH + TT}{UWH}$$

$$TP = \frac{SP + 1}{2}$$

TT	Training time (in units of unskilled labor time).
SP	Skilled labourer productivity.
TP	Trainee productivity in units of unskilled labor per hour
TH	Total Hours of Training
UWH	Lifetime Unskilled working hours
SWH	Lifetime Skilled working hours
H	Working hours per week
W	Working weeks per year
SY	Skilled labor years of work
UY	Unskilled labor years of work

The solution requires an iterative calculation, since the trainer's higher productivity is itself the result of being trained from an unskilled to skilled status by an earlier skilled trainer.³⁰⁴ With a four year apprenticeship, 44 years of work for both unskilled and skilled labour, 48 weeks per year and 40 hours per week, these equations give a skilled labour to unskilled labour productivity ratio of 1.2105 to 1.³⁰⁵ Thus, according to the Sweezy/Meek analysis, skilled labour is at most worth 25 per cent more than unskilled labour to the capitalist. Böhm-Bawerk commented that this is well below the actual productivity advantage of skilled labour over unskilled labour, and his comment is all the more valid today than in his time.³⁰⁶

Hilferding's method, in contrast, has no set ratio between training input and the additional value productivity of the skilled labourer. The training inputs will determine the wage paid

³⁰⁴ This complication manifests itself in equations (1), where TT depends on SP, and (4), where SP depends upon TT.

³⁰⁵ This complication manifests itself in equations (1), where TT depends on SP, and (4), where SP depends upon TT.

³⁰⁶ The ratio can be increased if the value of the means of production used in education are added, but it still falls far short of the productivity ratio assumed by Marx.

to skilled labour,³⁰⁷ but the additional productivity of the skilled labourer, being the use-value of the education imparted, is independent of the cost of education. The skilled labourer can therefore add much more value to output than his or her education cost—which as Hilferding points out means that education can be a source of additional surplus value.

Fundamentally, Meek and Sweezy treat education in a manner which is strongly analogous to Marx's treatment of fixed capital, and reach a similar conclusion: that education can add no value to production, but simply transfers the value of the educator to the product. As regards the value contribution of the means of production, Marx asserted that they can add no value to production, but simply pass on the value expended on their creation. As Harvey comments, the Sweezy/Meek characterisation of education echoes Marx's portrayal of machinery as "unproductive" in that it simply preserves value, rather than increasing it.³⁰⁸

However, while the treatment of fixed capital as merely preserving its own value has caused little difficulty for adherents to the traditional interpretation of Marx, there has always been discomfort with the notion that skilled labour is only fractionally more productive than unskilled labour. Hilferding, having correctly employed Marx's use-value/exchange value dialectic, has in contrast established that education can add value to production additional to the value expended in training. He has thus relieved Marxists of the difficulty of treating skilled labour as only marginally more valuable than unskilled labour.³⁰⁹ However, far from restoring equilibrium to the traditional cart, Hilferding's method poses a major difficulty for the analogous issue of the value productivity of fixed capital. It should be evident that Marx's dialectic of commodities should reach a similar conclusion for fixed capital as for education on the issue of value productivity.

Post-1973 Treatment of Use-value

Rosdolsky

Rosdolsky concluded his consideration of Marx's treatment of use-value with the hope that further research would "lead to a partial revision of previous interpretations of Marx's theory".³¹⁰ It is now much more common for Marxists to refer to the concept of use-value

³⁰⁷ if competitive conditions prevail in the market for skilled labour, which is unlikely.

³⁰⁸ "Is it really accurate then to say that the Hilferding approach [in fact, the Sweezy/Meek approach] attributes an increased value-creating capacity to skilled labour? I think not. It would be more correct to say that it attributes a value-preserving capacity to skilled labour such as means of production possess." Harvey, *op. cit.*, p. 87.

³⁰⁹ However his contribution on this issue appears to have gone unnoticed until now.

³¹⁰ Rosdolsky, *op. cit.*, p. 95. His contribution certainly called into question the traditional interpretation of Marx, but as for actual revisions of Marx's theory on the basis of Rosdolsky's work, little of merit has happened. Marxian theory in general has been in turmoil since the publication, at much the same time as *The Making of Marx's Capital* was translated into English, of Steedman's *Marx after Sraffa*. (NLB, London, 1977). In fact Sraffian criticism of Marx predates Steedman's book—as Meek's second edition clearly illustrates. However Steedman's work was the most accessible of these critiques, and the most strident. Steedman's demonstration of the implications for the labour theory of value of Sraffian analysis has left Marxism in disarray, with many deserting the fold. Meek's introduction and appendix to his second edition of *Studies*, and his *Smith, Marx and After* (Chapman and Hall, London, 1977) imply that he was

than it was prior to *The Making of Marx's Capital* and its examination of the *Grundrisse*. Mandel's *The Formation of the Economic Thought of Karl Marx* and Nicolaus' introduction to the first English translation of the *Grundrisse* are indicative of the modern tendency to acknowledge the importance of use-value.³¹¹

Mandel and Nicolaus

Mandel's *The Formation of the Economic Thought of Karl Marx* was written shortly after the German publication of Rosdolsky's critique, and was clearly influenced by it. Like Rosdolsky, Mandel relies heavily on the *Grundrisse* in his interpretation of Marx's economic method, while deriving the chronology of Marx's thought from his correspondence with Engels. Mandel asserts that "Marx probably made his most substantial contributions to the development of economic science" with the discovery of "a specific use-value of labour power".³¹²

"It is not exchange that creates surplus value, but rather a process thanks to which the capitalist obtains without exchange ... some of the labour time crystallised in value. And this process is nothing other than the enjoyment by the capitalist of the use-value of labour power, which has the quality of being able to produce value much in excess of the equivalent of its own exchange value, its own cost of upkeep.... Thus it is the subtle distinction between the exchange value and the use-value of labour power that becomes the basis of the Marxist theory of surplus value, the chief contribution made by Marx to the development of economic science."³¹³

Martin Nicolaus' Foreword to the *Grundrisse* gives an excellent survey of Marx's

amongst the many inclined to this position. Those that remain are split into two camps, with one calling for the theory of value to be dropped from Marxism altogether (l.c. Carling, Hodgson, Bose) while the other argues that value, somehow, is fundamental. This second camp is itself heavily divided, with some for business as usual along the lines of the traditional interpretation (l.c. Sweezy and Shaikh), others explaining surplus on the basis of unequal exchange (l.c. Desai, Bowles and Gintis), and still others seeking refuge in Marx's discussion of concrete versus abstract labour (l.c. Mohun, Carling, Sekine) or the non-commodity nature of labour (Bowles and Gintis, Mohun, Laibman).

³¹¹ However there are still many Marxists who appear to have been completely unshaken by Rosdolsky's analysis, or by the publication of the *Grundrisse*.

³¹² Mandel, op. cit., pp. 80-81. This echoes the opinion of Rosdolsky: "How often has the thesis of the 'contradiction between use-value and exchange value' been repeated? On the other hand, how often has anyone really taken the trouble to develop this thesis or regard it as something more than a survival of the time when Marx 'coquetted with the Hegelian manner of expression'? In reality we are dealing here with one of the most fundamental discoveries of Marx's economics, the neglect of which makes his conclusions in the theory of value and money appear utterly distorted". Rosdolsky, op. cit., p 133.

³¹³ Ibid, p. 83. Mandel goes on to argue that this concept owes much to Marx's re-reading of Hegel's Logic while he was writing the *Grundrisse*: "It is above all the parts of the *Grundrisse* that were not used for Capital that deserve special study, and here it is imperative to refer to a passage in Marx's letter to Engels of January 14, 1858, written in the midst of the writing of the *Grundrisse*, in which the founder of scientific socialism declares: 'In the method of treatment the fact that by mere accident I have again glanced through Hegel's Logic has been of great service to me...'. It seems undeniable that the extraordinary richness of Marx's analysis and the exposition of a number of 'dialectical pairs' such as 'commodity and money', 'use-value and exchange value', 'capital and wage-labour', 'labour time and leisure' 'labour and wealth', in which the *Grundrisse* abound, was if not directly caused then at least stimulated by the author's second encounter with his old mentor." Ibid, p. 103.

dialectical method. He explicitly describes Marx's exposition of the source of surplus value as an application of this method, and links it directly to his choice of the commodity as the starting point of his overall analysis of capitalism. He describes it as a concrete and historically specific beginning which contains within it "a key antithesis (use-value v. exchange value) whose development involves all the other contradictions of this mode of production."Commodity, role of in Marx's economics.

Nicolaus argues that only a beginning as materialist as this could be "a truly dialectical beginning", containing as it does the "contradictory in-itself", the twin aspects of the commodity.³¹⁴ This contradiction manifests itself in the "exchange" between labour and capital, and here Nicolaus implicitly acknowledges the sentence in the *Contribution*³¹⁵ which had been ignored by Hilferding and Sweezy:

"As in any other exchange of commodities, the buyer gives the seller the money-equivalent of the commodity's exchange value, and obtains from the seller the commodity's use-value... The use-value of the commodity 'labour' within the capitalist production process is not a non-economic affair, because the use-value of 'labour' for its buyer, the capitalist, is precisely to create exchange values, commodities, products to be sold".³¹⁶

Thus, behind the apparent equality of the market place lies the exploitation of the worker's use-value by the capitalist, to generate surplus value.³¹⁷ While Nicolaus does not carry the analysis past the stage of divining that labour power is a source of surplus value, it is clear that his approach to this issue is radically different from that of Sweezy, Meek and Dobb. In contrast to Desai,³¹⁸ he is also true to Marx's other fundamental axiom, that this reality of exploitation lying beneath capitalism had to be uncovered on the basis of the exchange of equivalents, by parties of equal standing.

³¹⁴ Ibid, p. 38, both preceding quotes.

³¹⁵ Contribution, op. cit., p. 28.

³¹⁶ Nicolaus, op. cit, p. 20.

³¹⁷ Nicolaus, op. cit, p. 20.

³¹⁸ See Chapter 5.

10. The Sources of Value

Introduction

As has been demonstrated, Marx derived the result that labour power was a source of surplus by applying his dialectical analysis of the commodity to labour power. Briefly, he argued that the price the capitalist paid to hire labour power for a day, its exchange value, was the cost of the means of subsistence for a day. This could be expressed as a number of hours of labour (in Marx's time, say six hours). However the use-value of that hired labour was that it could be put to work producing commodities (which could later be sold to realise exchange value). This use-value manifested itself as a number of hours of labour, the length of the working day (say 12 hours). There is an obvious difference between these two amounts, consonant with the general rule that use-value and exchange value "bear no relation to each other", so that when both are quantitative they will normally be different. This difference between the labourer's exchange value and his use-value was a source of surplus value, which is the foundation of profit.

This proved the first half of his case, that labour power was a source of surplus value. To prove the second half, that no other input to production could be a source of surplus, this dialectical analysis should likewise be applied to raw materials and means of production. Marx did purport to apply his dialectic to the value productivity of machinery and raw materials, concluding that the value contained in raw materials and means of production is transferred to the product, but that they add no surplus value; that came from labour power alone. However his application of his logic was flawed. The statement that the means of production simply transfer their value to the product is logically equivalent to the statement that their use-value always precisely equals their exchange value. This contradicts the initial premise, that the use-value and exchange value of a commodity are unrelated. The question of the value productivity of the means of production is thus a major logical quandary for Marxism.

The Quantification of Use-value

A proper application of Marx's dialectical logic to the question of the value productivity of the means of production requires both the quantification of the exchange value of the inputs to production, and quantification of the use-value of the outputs. The quantification of exchange value is a familiar notion to those raised on the labour theory of value; the concept of quantified use-value normally appears foreign. However despite this presumed unfamiliarity, the quantification of use-value been a feature of Marxian economics since Marx first penned the equation $C' = c + v + s$.³¹⁹

The inputs to any productive process are heterogeneous labour power and a heterogeneous collection of goods. The output of any productive process is a heterogeneous collection of

³¹⁹ See Capital , Vol. I, op. cit., pp. 204-05.

goods.³²⁰ Marx's measurement of the inputs to production in labour value terms involves reducing the labour input and the capital and raw material input to units of unskilled labour power. While there are difficulties with these reductions,³²¹ conceptually at least they can be performed. The reductions essentially involve the choice of a numeraire in which to measure the quantitative exchange value of different inputs, with Marx's choice of a numeraire being labour time. Given the input side of the productive process as xxx, is clearly the exchange value of the means of production, and is the exchange value of labour power.

The fact that labour power's exchange value and use-value can both be measured in units of labour time (once the heterogeneous labour power input has been reduced to units of unskilled labour) has led many Marxists to presume that this is all that is needed to uncover the source of surplus. However all that does is divine easily that labour is a source of surplus. A valuation of the gross output in labour time terms and a comparison of this to the inputs is needed before it can be decided whether the surplus from labour power is the entire surplus generated by production.

Marx's analysis includes the valuation of the gross output from production: the equation . This proposition that the gross output can be measured in labour value terms is conceptually defensible, since it is no different in principle to the valuation of the commodity inputs. Equally Marx's equation is of itself unproblematic, since all it states is that production generates a surplus. The difficulties arise when Marx attributes portions of that net output to the labour power and the commodity inputs. Marx's claim that the surplus s is proportional to v and unrelated to c describes as the use-value of labour power, and as the use-value of the means of production. He made the former identification explicitly on numerous occasions,³²² including the passage in *Capital* where he first reveals the source of surplus value:

“The past labour that is embodied in the labour power, and the living labour that it can call into action; the daily cost of maintaining it, and its daily expenditure in work, are two totally different things. The former determines the exchange value of the labour power, the latter is its use-value”.³²³

There are numerous other passages where the use-value of labour power is identified with similar concepts such as surplus value, productive consumption, etc. While his characterisation of xxx as the use-value of the means of production was never so definitive,³²⁴ Marx nonetheless was explicit that the quantitative measure of a machine's

³²⁰ As Sraffa has demonstrated, even a single product production line can be regarded as producing both its intended product and depreciated capital goods. As Marx points out, workers have also been “depreciated” and need to renew themselves after labour, but under capitalism this is of no concern to the capitalist. It is simply a manifestation of the non-commodity aspects of the commodity labour power.

³²¹ As Chapter 3 establishes.

³²² As Chapter 3 establishes.

³²³ *Capital*, Vol. I, op. cit., p. 188. See also *Theories of Surplus Value*, Part I, p. 400 and *Grundrisse* p. 576, all cited previously.

³²⁴ The reasons for this, if not already obvious, will become so later.

contribution to production was its use-value, not its exchange value:

“So far as constant capital enters into the production of commodities, it is not its exchange-value, but its use-value alone, which matters.... the assistance rendered by a machine to, say, three labourers does not depend on its value, but on its use-value as a machine”.³²⁵

Thus, the contribution of the means of production to the value of output is their use-value. However in *Capital Volume I*, the quantity which Marx gave for the use-value of a machine was—which is also its exchange value:

“However useful a given kind of raw material, or a machine, or other means of production may be, though it may cost £150, or, say 500 days’ labour, yet it cannot, under any circumstances, add to the value of the product more than £150”.³²⁶

The equivalence of both the exchange value and the use-value of the means of production was a feature of every numeric example given by Marx, in all of his economic works. In Marx’s example, the cost of the means of production is clearly its exchange value. Its contribution to production is also, quite evidently, its use-value. Thus, the quantification of the use-value of the means of production, while conceptually difficult, is not new to Marxism; Marx and Marxists have been doing it for over a century. However in attributing a quantity to this use-value, Marx essentially continued Ricardo’s implicit practice of treating the output from capital, measured in units of labour time, as being identical to its input.³²⁷

The problem is that this customary quantification contradicts Marx’s fundamental and oft-repeated proposition that use-value and exchange value are unrelated. The central point of this thesis is that in the *Grundrisse*, Marx transformed the classical distinction between exchange value and use-value, and the classical proposition that use-value plays no role in determining exchange value, into a dialectical foundation for his economics. Prior to this pivotal logical advance, there was no problem with Marx continuing to follow Ricardo on this issue. Marx was simply a “minor post-Ricardian”³²⁸ who made explicit in his theory a concept which was arguably nascent in Ricardo. The assertion that labour is the only source of value could be maintained, albeit with all the technical problems of a labour theory of value.

But his development of the dialectic between exchange value and use-value makes this claim logically untenable. The axiom that use-value plays no role in determining exchange value means that, in the sphere of consumption, use-value and exchange value are

³²⁵ Capital, Vol. III, op. cit., p. 80.

³²⁶ Capital, Vol I, op. cit., p. 199.

³²⁷ Ricardo, op. cit., p. 28, where he considers the impact of different periods of circulation of capital on values and prices.

³²⁸ Samuelson's characterisation of Marx, prior to his salutary experiences in the Cambridge Controversies.

incommensurable.³²⁹ In the sphere of production, where both exchange value and use-value are quantitative, it means that they are normally³³⁰ different. Yet to argue that the quantified use-value of the means of production is the same as their quantified exchange value is to argue that, in the case of the means of production, exchange value and use-value are identical.

The chronology of Marx's economic works is important here. As Groll and Orzech indicate,³³¹ Marx in fact composed the unedited *Volume III of Capital* before the final draft of Volume I, the only volume which he himself published. The above quote from Volume III thus indicates Marx's earlier application of his newfound tool, before the possibility had occurred to him that perhaps the new (dialectical) analysis contradicted the old. The discussion in Volume I represents Marx's attempt to reconcile the two—an apparent reconciliation which apparently satisfied him and clearly befuddled a century of followers, but nonetheless failed the test of logic.

The following table summarises Marx's arguments in Volume I on the source of surplus value and the use-value/exchange value dialectic:

	<i>Labour Power</i>	<i>Commodity Inputs</i>
<i>Exchange value</i>		
<i>Use-value</i>		
<i>Different?</i>	Yes	No
<i>Surplus generated?</i>	Yes	No
<i>Consistent with Ricardo?</i>	Yes	Yes
<i>Consistent with dialectic?</i>	Yes	No

There are only four ways in which this conflict can be resolved:³³²

- (a) The treatment of the means of production should be regarded as an exception to the general rule that exchange value and use-value are unrelated.
- (b) The general rule itself is wrong; rather than exchange value and use-value being unrelated, when they can both be quantified, use-value in fact determines exchange value. Instead labour power is the exception: only for labour power is there a gap between use-value and exchange value.

³²⁹ in contrast to the neoclassical schema, which makes utility and price commensurable through the devices of marginal utility and marginal cost.

³³⁰ though not necessarily

³³¹ Groll, S. and Orzech, Z.B. , “Technical progress and values in Marx's theory of the decline in the rate of profit: an exegetical approach”, *History of Political Economy* , Vol. 19 No. 4, 1987, pp. 591-613.

³³² Predictably, attempts to justify this quantification—by Marx as much as by some of his followers—contravene the manner in which Marx proved the extraction of surplus from labour power.

- (c) The dialectic between use-value and exchange value is either irrelevant or a mistake. Marx solely used (or should have solely used) the special features of labour power which distinguish it from the other, commodity inputs to production.
- (d) Marx incorrectly applied the dialectic of commodities to the question of the source of value. He correctly concluded that labour power was a source of surplus using this analysis, but should have concluded that the commodity inputs to production were also sources of surplus value.

Each of these interpretations will be considered in turn.

An Exception

As bizarre as this interpretation may appear, it could be said to have one adherent—Marx. Immediately after the sentence in *Volume I* where he sets the exchange value of a machine (£150) as the upper limit to its use-value, Marx comments that

“Its value is determined not by the labour-process, but by that out of which it has issued as a product. In the labour process it only serves as a mere use-value, a thing with useful properties, and could not, therefore, transfer any value to the product, unless it possessed such value previously”.³³³

However this proposition—that because a machine serves as a “mere use-value” it can only transfer its exchange value—does not make machinery an exception to the general rule so much as contradict the rule itself. In the labour process, labour too serves as “a mere use-value”; if it also could not “transfer any value to the product, unless it possessed such value previously”, then it too would add the equivalent of its exchange value to products, and there would be no surplus value.

Also, as an examination of *Theories of Surplus Value* attests, Marx was far from forgiving of the use of exceptions by other economists.³³⁴ Thus Marx could not be regarded as consciously excepting machinery from his general theory. Instead he can at best be regarded as believing that his dialectical method did not contradict the practice, adopted from Ricardo, of attributing all the surplus in production to labour. In this he was no different to later economists who have found it difficult to escape from “habitual modes of thought and expression”.³³⁵ Having embraced the labour theory of value after a long period of struggle against it, Marx made this the cornerstone of his analysis prior to his logical

³³³ Ibid, p. 199.

³³⁴ let alone of the commission of logical errors. See his discussion of Smith over the exchange between labour and capital being an “exception” to the rule that commodities exchange at their values. *Theories of Surplus Value*, Part I, op. cit., pp. 87-88.

³³⁵ Keynes, J. M. (1936). *The General Theory of Employment, Interest and Money*. London, Macmillan, Preface, p. 6.

“The best way to understand something is to begin by not understanding it. This time-honoured popular saying is reflected the attitude of the young Marx adopted toward the labour theory of value.” Mandel, op. cit, p. 40.

revelation in the *Grundrisse*. It was then no easy matter for him to accept that this new and powerful tool could be in contradiction with the technique he had made his own in the previous twenty years. He thus struggled to make the new tool appear to reach the same conclusions as the former. His ostensible success was Damoclean, however: while he apparently satisfied himself with his reasoning,³³⁶ the effect of his convoluted prose was to bury the new tool beneath the old. As much as Marx may have railed against Wagner for sprouting the fallacy that Marx banished use-value from economics, phrases such as “a mere use-value...” do excuse such an interpretation.³³⁷

Use-value Determines Exchange Value

Meghnad Desai’s *Marxian Economics* rates as one of the first English-language Marxist works to employ a use-value/exchange value methodology. At first glance, his method here is identical to that of Marx. Discussing the source of surplus value, he states that once the worker has sold his labour power to the capitalist,

“The gap between exchange value of labour power and its use-value now becomes important... The use-value of the labour ... is the value added by the worker. This use-value of labour is in excess of the exchange value of labour power. This gap is surplus value, and the capitalist seeks to buy labour because he expects to reap surplus value”.³³⁸

However, this apparently clear application of one of Marx’s basic axioms is illusory. While he initially appears to accept the classical axiom that the use-value and exchange value of a commodity are unrelated, and that the latter is determined solely by the difficulty of production,³³⁹ he is apparently confronted with a dilemma: if use-value and exchange value are unrelated, and if the use-value of any input to production is quantitative, why is there not a gap between the value and the use-value of machinery³⁴⁰—why does a capitalist not make a surplus from raw materials and machinery? His attempt to escape from this dilemma in fact leads him to an implicit rejection of every tenet of both the classical and Marx’s analysis of commodities.

Starting with raw materials, Desai says that “Since raw materials are bought from other capitalists ... the full value must be paid. This is uncontroversial and is indeed the definition of value added”.³⁴¹ His explanation of the non-value productivity of machinery is rather more long-winded. Firstly he acknowledges, as does Marx, “that machines are productive, that is, that they have value”. But he then argues that the capitalist purchaser pays a “rental” for a machine which is equated to its value productivity—or in other words, its use-value:

“It is more important to understand why Marx says that machines do not create

³³⁶ In *Capital* Volume I, discussed later.

³³⁷ And hence in part forgive the errors in interpretation of Marx by the traditional Marxist school.

³³⁸ Desai, *op. cit.*, p. 21.

³³⁹ He states that “not all goods which had use-value commanded exchange value. Exchange values were determined ... by ... the relative difficulty of producing that commodity.” *Ibid*, p. 10.

³⁴⁰ respectively, the value cost of the non-labour inputs to production, and their value contribution.

³⁴¹ *Ibid*, p. 23.

surplus value. Marx does not deny that machines are productive, that is, that they have value. The value produced by a machine during the production process is equated to the rental paid by the capitalist for the use of the machine. Whether the capitalist owns the machine or rents it is irrelevant here for the economic calculation. The point is that the value produced by the machine—the value transferred from the machine to the final product, as Marx would put it—is exactly matched by the flow price of the machine”.³⁴²

While this argument may appear to be derived from Marx’s comments about machinery serving as a “mere use-value” in production, it in fact reverses the causality. In his attempt in Volume I to explain why machinery did not produce surplus value, Marx effectively said that the exchange value of a machine sets the maximum for its use-value—thus exchange value determines use-value. Instead, Desai is arguing that the price paid for the machine is its use-value: therefore use-value determines exchange value.

Desai’s proposition that when a capitalist purchases a commodity from another capitalist, that the price he pays is equivalent to the commodity’s use-value—as Desai puts it, the “value added” in the case of raw materials, and “the value transferred from the machine to the final product” in the case of machinery—means that the determination of exchange value is different for machinery than it is for labour power. When a capitalist buys a commodity input to production from another capitalist, the price he pays is equivalent to its use-value. Yet when a capitalist buys labour power from a worker, Desai maintains that he pays a price equivalent only to its exchange value. Thus the price set in any exchange depends upon the class standing of the parties to exchange.

This interpretation of Marx has gained wide currency.³⁴³ However, despite its lip-service to the concepts of use-value and exchange value, it is as much a travesty of Marx’s logic as was the Hilferding/Sweezy line. There are, I would argue, five fundamental propositions which Marx expounded upon repeatedly throughout the *Grundrisse*, *Theories of Surplus Value*, and *Capital*: and this interpretation of Marx contradicts them all. They are:

- (1) that absolute value is the basis of exchange value;
- (2) that exchange is an act involving a complete abstraction from use-value;
- (3) that exchange involves the transfer of equivalents in terms of absolute value;
- (4) that the different social standing of the parties to exchange has no effect on the rate of exchange. This applies even to labour power. The different social standing of the parties to that exchange is necessary in the first place for labour power to be a commodity; but once it has been made a commodity by the dispossession of

³⁴² Ibid, p. 23.

³⁴³ Though not necessarily with Desai as its fountainhead. A similar interpretation emanates from the Regulation school associated with Aglietta; the Bowles and Gintis “post-Marxian” approach, discussed next, provides a basis to reject Marx’s use-value/exchange value dialectic and is consonant with Desai’s unequal exchange methodology.

labourers from the means of production, the exchange of that commodity follows exactly the same principles as for the exchange of all other commodities,³⁴⁴ and

(5) that the source of surplus value is to be found in production, not in exchange.

Desai initially abandons proposition (4), claiming instead that:

“Labour creates surplus value by virtue of the fact that the unequal relation operating in the market for labour creates a gap between its use-value and exchange value. Of the three factors of production, machines and raw materials are bought and sold by capitalists and hence there is no possibility of surplus value being extracted... Labour is the one commodity that is sold by the worker and bought by the capitalist”.³⁴⁵

Thus Desai explains surplus value through the unequal standing of parties to the labour exchange. This argument asserts that, in exchanges connected with production, the relative class standing of the parties to exchange affects the rate of exchange. Thus when a capitalist sells a commodity input to production to another capitalist, the price is equivalent to the contribution the commodity will make to output, and not to its cost of production. However when a worker sells his sole commodity input to a capitalist, the unequal social relations allow the capitalist to only pay for the cost of production of labour power, and not for its contribution to output. Compare this proposition of unequal exchange with Marx’s statement that “A worker who buys commodities for 3s appears to the seller in the same fashion ... as the king who does the same”.³⁴⁶ It is also in clear contradiction with Marx’s discussion of the source of surplus value on pages 188 and 189 of *Capital Volume I*, where he says:

“The circumstance, that on the one hand the daily sustenance of labour power costs only half a day’s labour, while on the other hand the very same labour power can work during a whole day, that consequently the value which its use during one day creates, is double what he pays for that use, this circumstance is, without doubt, a piece of good luck for the buyer, but by no means an injury to the seller”.³⁴⁷

Clearly, if there is no injury to the seller of labour power, then that seller does not operate under substantially different terms than does the seller of any other commodity—yet this interpretation would have it that he is uniquely disadvantaged. The contradictions with Marx’s logic do not stop with this one, however: the propositions are so tightly bound that all five must go if one is abandoned, and Desai’s reasoning illustrates this. The next casualty is the cornerstone of the classical school, that use-value plays no role in determining the rate of exchange. Instead, Desai argues, supposedly on the authority of Marx, that

³⁴⁴ See *Capital Vol. I*, p. 188, cited above in Chapter 3 Section 3.2.

³⁴⁵ *Ibid*, pp. 23-24.

³⁴⁶ *Grundrisse*, op. cit., p. 241; and again p. 246.

³⁴⁷ *Capital*, Vol I, op. cit., p. 188.

“For Marxian theory it is surplus value that is created by labour. All commodities have value. Machines are productive and so is labour. In the case of labour alone, due to the unequal nature of social relations, there is a gap between the use-value and the exchange value of labour power”.³⁴⁸

This statement allows only one interpretation. Desai, unconsciously or otherwise, has rejected proposition (2), repeated time and time again by Marx, that use-value and exchange value are unrelated. If it is only in the case of labour that a gap exists between use-value and exchange value, then in all other commodities, there is no gap: their use-value equals their exchange value. While this is at least superficially sustainable in the case of commodities purchased for productive consumption, it is an absurdity when applied to commodities purchased for ordinary consumption. Either this approach must postulate that the price paid for a consumer item (in labour value terms) equals its utility to the consumer, or it must revert to the classical postulate that exchange value and use-value are unrelated, with exchange value determined by the absolute cost of production. With the former rationalisation we no longer have a classical theory of value but a crude variant of the neoclassical that utility determines price. With the latter, there is no longer one “law” of value applying to all commodities but rather several special rules depending on what the use to which a commodity will be put (normal or productive consumption) and who is doing the selling (labourer or capitalist). This results in absurd contradictions when applied to valuation of a commodity: If coal, for example, is sold to a worker and used to keep him warm, then it will be sold for its exchange value; if it is sold to a capitalist to generate power, it will be sold for its (higher) use-value.

Proposition (3), that exchange involves the transfer of equivalents in exchange value terms, is also cast overboard. In the case of all other exchanges, equivalent is exchanged for equivalent, but in the case of labour power, the seller receives less in absolute value terms than he gave. According to Desai, when a worker exchanges his labour power with a capitalist, the former gives the use-value of labour power, and receives its exchange value in return. However if a capitalist exchanges a machine with another capitalist, the former gives the use-value of the machine and receives its use-value as payment. Thus, in the latter case equivalent is exchanged for equivalent, but in the former the worker is “cheated” in the exchange itself: he gives use-value, he receives exchange value; the former is definitely greater than the latter.

The role this interpretation leaves for the concept of absolute value is unstated, but it is evident enough: none whatsoever. If the basis of exchange value is use-value, then absolute value—the amount of effort involved in producing a commodity—has no role in determining price. Therefore, this also amounts to a rejection of the proposition (1) above, the very first statement in the major works of each of Smith, Ricardo and Marx. It is a stronger rejection of this fundamental tenet of the classical school than that made by the “vulgar economists” Marx so vehemently criticised, and their neoclassical offspring. At least the neoclassical school still argues that cost of production still has some role in

³⁴⁸ Desai, *op. cit.*, pp. 24-25. Emphasis added.

determining value, in the guise of the marginal cost of production. This contention that use-value and exchange value are identical means that utility plays the entire role in determining value, and cost of production (however measured) plays none.

Desai makes the exchange between worker and capitalist the source of surplus value, and therefore rejects the final component of Marx's explanation of surplus value, that its origin is to be found in production, not in exchange. In many ways this was Marx's crucible for judging economic theories: if they had to rely upon the presumption of unequal exchange to show the origin of surplus, then they proved nothing. This attitude predates his derivation of the dialectic of the commodity, as witnessed in the statement in "Wages, Price and Profit" that to explain profits "you must start from the theorem that, on the average, commodities are sold at their real values, and that profits are derived by selling them at their values, that is, in proportion to the quantity of labour realized in them. If you cannot explain profit upon this supposition, you cannot explain it at all".³⁴⁹ Desai's approach explains profit by presuming that labour power exchanges in proportion to the amount of labour realised in it; but it presumes that all other commodities involved in production exchange at a higher rate, corresponding in fact to Smith's labour commanded measure.

Desai's theory may be an explanation of profit based solely on the exploitation of the worker; but it is not Marx. Marx's judgment on this approach can be inferred from the preceding quote, and the observation in *Theories of Surplus Value, Part III*, that with unequal exchange between worker and capitalist as the explanation of surplus value, "the law of value would be destroyed by the transaction between worker and capitalist".³⁵⁰ This approach is completely incompatible with Marx's classical roots and his dialectical analysis of the commodity. However, Desai can partly be excused his problems, because they indicate a fundamental contradiction in Marx himself: his analysis of commodities is inconsistent with the assertion that labour is the only source of value. It is not possible to employ only the dialectic of use-value and exchange value and still conclude that labour is the only source of surplus value. This realisation powers the next interpretation to be considered, which bases the analysis of the origins of surplus on the unique, non-commodity characteristics of labour power.

The Distinction between Labour and Labour Power I

The non-commodity nature of labour

Bowles and Gintis are well aware that Marx's analysis of commodities contradicts his assertion that labour power is the only source of value. They state that Marx assumes labor to exhibit "the 'special' quality, that its use-value would also be a source of value",³⁵¹ when in fact any basic commodity has this ability. However their response to this is that, if a theory of value is to give some special place to labour, it must be on the basis of the non-commodity aspects of labour. This is unobjectionable; the objectionable part of their

³⁴⁹ Marx-Engels Selected Works , Volume I, op. cit., p. 384.

³⁵⁰ Marx-Engels Selected Works , Volume I, op. cit., p. 384.

³⁵¹ Bowles and Gintis , op. cit., p. 7.

reasoning is that they argue that the price for this special place for labour power is the abandonment of the concept of absolute value in general, and Marx's analysis of the commodity in particular.

They begin with what they describe as a critique of Marx's justification for representing the value of a commodity as "the socially necessary labour-time embodied in it", in which they consciously attack each of the propositions underlying Marx's dialectical analysis of the commodity. The propositions, as they see them, are:

- that use-value plays no part in determining the rate of exchange;
- that behind the act of exchange lies the exchange of equivalents;
- that the equivalents lying behind exchange represent the absolute value of the commodities involved;
- that production, not exchange, is the source of profit; and
- that the only thing which can constitute absolute value is the property of being products of labour.

In part their attack on these propositions is a straw man debate. The first four of these are as much arguments of Smith and Ricardo as they are of Marx, yet Bowles and Gintis exclusively attack Marx's presentation on these issues, and then only his arguments "in the first pages of *Capital*". Marx's arguments in *Capital* were lightweight, presumably because he regarded the issues as having been settled by the works of Smith and in particular Ricardo. To the fifth issue, that labour power was the source of value, he devoted enormous (though misplaced) effort—because he did not regard this issue as having been settled by his predecessors. Their critique suffers as much or more by their decision to limit themselves to Marx's arguments, and those in *Capital Volume I* alone. For instance, when discussing Marx's dismissal of use-value as an explanation for exchange value, they comment "Can we take seriously this cavalier treatment of what was, even in Marx's day, a major alternative to the labour theory of value?"³⁵² Undoubtedly, Marx's treatment of this subject was cavalier in *Capital*, but the same charge cannot be laid against Ricardo, with whom Marx was in complete agreement on this issue. And while *Capital* had little justification for Marx's position, *The Poverty of Philosophy* provided some explanation for his perspective, where he criticises Proudhon for starting his analysis of exchange with use-value. Marx's critique is almost the mirror image of Böhm-Bawerk's later critique of Marx for eliminating use-value as a possible source of exchange value. Meek's excellent survey of the development of the belief in absolute value should be contrasted with Bowles and Gintis's characterisation of it as a "cavalier" statement.³⁵³

There is another flaw to their critique of each of these propositions: they treat them as arguments which must be proven, rather than as axiomatic abstractions (consistent with Marx's dialectical method) which can be justified with reference to empirical evidence, but never proven. For example, they argue that the existence of such an entity as absolute value

³⁵² Ibid, p. 5, both preceding quotes.

³⁵³ *The Poverty of Philosophy*, op. cit. See especially pp. 34-37; for Meek, see *Studies in the Labour Theory of Value*, op. cit., Chapters 1-3.

“requires rigorous proof”.³⁵⁴ However, as Meek argues, some elements of an economic theory are not susceptible to logical proof of the kind tendered in geometry.³⁵⁵ What is necessary is that these foundation elements of the theory have some appeal as a defensible abstraction from reality, and that the results they give have merit. On the first basis, the abstraction that exchange involves the transfer of equivalents has as much to recommend it as the contrary abstraction that all exchange is relative, while on the second, Marx’s analysis of commodities is in fact consistent with analysis in the Sraffian tradition, whose merit Bowles and Gintis acknowledge.

The real substance of their case begins with the proposition that unequal exchange may be the source of profit: unequal exchange between worker and capitalist in the wage bargain.³⁵⁶ Stating that Marx based his rejection of unequal exchange as a source of profit on the fact that “the selling of a commodity above or below its natural price leads to a redistribution of value ... rather than surplus value”, they claim that

“this type of argument is manifestly inapplicable to the bargain between capitalist and worker... why should the exchange of labor-power for a wage be considered an equal exchange? The equivalence of the labor-power wage exchange relies ... on the implicit assumption that the production and valorisation of labor-power is governed by the same mechanisms which govern other commodities... the non-equivalence of the labor-power wage exchange throws into doubt the central insights that profit is generated in production rather than exchange”.³⁵⁷

This postulate clearly sets them apart from the classical school in general, and especially from Marx, who was at pains to show that profit could be explained on the basis of equal exchange alone,³⁵⁸ and that it emanated from production. It is also misleading to imply that since Marx regarded exchange as involving the transfer of equivalents, he also treated the relationship between capitalist and worker as an equal one. For Marx the inequalities between dispossessed labourer and propertied capitalist is what made the ability to labour a commodity in the first place. However, once commodified, the rate of exchange was determined as for any other commodity, by the minimum cost of production, or value. Even this level itself reflects the unequal power conflict between capitalist and labourer, since this rate is equivalent to the minimum necessary to allow the labourer to survive and reproduce,³⁵⁹ a condition which could only prevail if workers are completely lacking in

³⁵⁴ Bowles and Gintis , op. cit., p. 5.

³⁵⁵ Meek was mistaken to treat Marx's belief in labour power as the only source of value as an axiom, since Marx had in fact attempted to provide axioms from which this proposition could be derived, but his discussion on this point is nonetheless correct. Meek , op. cit., p. 164.

³⁵⁶ “it is by no means clear why the exchange of `nonequivalents' cannot be the source of surplus value.” Bowles and Gintis , op. cit., p. 6.

³⁵⁷ Bowles and Gintis , op. cit., p. 6.

³⁵⁸ Though he was quite willing to countenance unequal exchange as a way in which these fundamental profits were enhanced in practice.

³⁵⁹ Subject to the modification that this minimum entails a “historical and moral element”. See Capital , Vol I, p. 168.

bargaining power.³⁶⁰

Bowles and Gintis claim support for their perspective from Sraffian analysis, which they claim sees the wage contract as the source of profit because it treats the wage rate and the profit rate as inversely related, so that a higher wage necessarily means a lower rate of profit.³⁶¹ However, this portrayal of the Cambridge approach is unjustified. As Meek's introduction to his second edition points out, Sraffa would have preferred to treat the wage as having two components, one fixed by the technical needs of production reflecting the commodity cost of production of labour, and the other variable and reflecting a sharing in the surplus generated by the system between the capitalist class and workers. He used the alternative approach, of treating the entire wage as variable, "largely for the sake of convenience".³⁶² Sraffa states that since the wage has a "double character ... it would be appropriate

to separate the two component parts of the wage and regard only the 'surplus' part as various; whereas the goods necessary for the subsistence of the workers would continue to appear, with the fuel, etc., among the means of production".³⁶³

The Sraffian approach thus categorically does not see labour power as the only source of profit, and it can hardly be used as a rationale for the resurrection of this proposition.

However, as shaky as their grounds for it may be, Bowles and Gintis need this proposition of unequal exchange between capitalist and worker for the next stage of their case. Having dismissed a theory of exchange based on absolute value, they are left with one based on relative value only, and must explain "exploitation" within the framework of supply and demand. Their explanation is thus predictably based on a presumed permanent glut of labour power. They observe that, if labour power were a true commodity, it would be subject to "alternating periods of excess demand and excess supply". However, because it is not produced as a commodity, it is subject to "an enduring glut" because its producers do not respond to market signals to adjust supply to demand. This enduring excess of supply over demand suppresses the value of labour power below the value it would achieve if it was a true commodity, and this suppression is their explanation of the source of profit. They comment that if labour power were a commodity, then

"a reserve army of labour power would be as accidental as a reserve army of shirts... But we know that a reserve army of unemployed workers (excess supply of labour power) is central to the maintenance of a positive rate of profit and to the reproduction of the social relations of capitalism".³⁶⁴

³⁶⁰ See the discussion of a dialectic of labour.

³⁶¹ They state that "The Cambridge School ... has with equal *prima facie* cogency eschewed the equal exchange framework. By isolating the wage/profit trade-off as the central conflict between capital and labour, they have directly tied the level of profit to the outcome of the wage struggle." *Ibid*, p. 6.

³⁶² Meek, *op. cit.*, p. xxxvii

³⁶³ Sraffa, *op. cit.*, pp. 9-10.

³⁶⁴ *Ibid*, p. 13.

The glut comes about, they claim, from the fact that the locus of “production” of workers, the family, has not become a capitalist institution, and thus does not obey market signals. While there is merit in this observation, they aggrandise this to an explanation of why there is profit under capitalism:

“Ironically, it is the incomplete nature of the accumulation process, the fact that it has failed to convert the family site to commodity production which renders the reproduction of the social relations of capitalist production possible”.³⁶⁵

In effect, they are explaining the existence of capitalist profit—and hence of capitalism itself—on the grounds that part of the system is not capitalist. This involves the rejection of one of the guiding principles of Marx’s dialectics, that the forces which explain a social system are to be found within the system itself.³⁶⁶ Their reasoning also leads to the corollary that if the demand for labour power equalled supply, exploitation would be eliminated, and profit would disappear; and if demand exceeded supply, then workers would “exploit” capitalists and profits would be negative.³⁶⁷ This is the conclusion they reach when putting the proposition that, if labour power were produced as a commodity, it would be subject to continuous shortages rather than gluts.³⁶⁸ They comment that such a situation “would be contradictory to the generation of profits and the reproduction of capitalist social relations”.³⁶⁹ Their case is thus akin to Marx’s argument about the source of absolute rent,³⁷⁰ and as fragile. It is by no means evident that labour power is subject to a continuous glut, with the best example of the obverse being the long period of prosperity from the mid-50s to the beginning of the 70s. According to Bowles and Gintis, that should have been a time of low (or negative) profits, but until its later stages it was in fact a time of high profitability—as indeed are the recovery and peak periods of any capitalist boom.

Their argument faces one further problem: explaining why labour’s price does not fall to zero if it is always in oversupply, and if prices are determined by supply and demand. They approach this by rejecting one component of Marx’s characterisation of labour as the use-value of labour power. Their substantive argument here is that the use-value of labour power is not independent of the amount of labour necessary to appropriate its useful qualities—i.e., inanimate commodities do not resist being consumed, whereas workers often resist working. Taking Marx’s statement that for all commodities, use-value and exchange value bear no relation to each other, Bowles and Gintis argue that this is not the

³⁶⁵ Ibid, p. 13.

³⁶⁶ Though a system may well need contradictory elements to survive.

³⁶⁷ If labour power is still seen as the only source of value. As Wolff’s analysis indicates, it is possible to follow this Bowles and Gintis approach and still argue that labour power is not the only source of profit. However Bowles and Gintis appear to prefer the assertion that the exploitation of labour power is the only source of profit.

³⁶⁸ Because producers of labour power would realise that capitalism would also produce new workers by such routes as technological change.

³⁶⁹ Ibid, p. 13.

³⁷⁰ That the monopoly of land ownership lets landlords keep the difference between the value of food and its price of production. This difference is positive only if the organic composition of capital in food production is lower than the average; should it rise above the average, absolute rent would disappear.

case with labour power, because unlike a commodity, labour power resists “consumption”:

“Here is a real peculiarity of labour power. The enjoyment of the use-value of any other commodity is non-problematic: the bread does not resist being eaten. Not so with labour power. Its ‘use-value’... must be extracted [by engaging] the energies of armies of supervisors, time-motion men, guards, spies and bosses of all descriptions. By no stretch of imagination is this property of labor-power independent of the amount of labor required to appropriate its useful qualities”.³⁷¹

Thus, to ensure that labour power, once purchased, is actually delivered, the capitalist must be able to provide a number of tools of coercion. One of these tools is the threat of dismissal, but this threat only has an impact if the consequence is a reduction in the worker’s income: hence the wage must be positive if the prospect of dismissal is to have any impact on the output of the worker:

“The problematic nature of the extraction of labour from labour power is no less central to solving the puzzle of the coexistence of positive wages with perpetual excess supply in labour markets. The resolution of this anomaly hinges upon the capitalist’s imperative to maintain the efficacy of the threat of firing as a necessary condition for the extraction of labour from labour power.... The cost of maintaining the threats of firing must include the wage of the production workers, for it is perfectly clear that the efficacy of the threat of firing depends upon the economic loss which being fired inflicts on the worker.... there is clearly some nonzero wage below which it will not pay to go, as each reduction in the wage will lower the efficacy of the capitalist’s strategy for the extraction of labour from labour power”.³⁷²

However, this manoeuvre necessitates working out a viable minimum level for wages, the “nonzero wage below which it will not pay to go”. Presumably the lowest level to which this ‘positive deterrent’ could be set is the amount of money which lets the worker purchase the bare necessities of life, but no more—or in other words, the value of labour power in an absolute theory of value. The final step in their attempt to base exploitation on a relative theory of value thus returns to absolute value, from which they had tried to escape.

This argument is preceded by an objection to the ideological consequences of treating labour as “the use-value of labour power to the capitalist”, because this abandons “the point of view of the working class and the more dispassionate view of the student of capitalism as a system, in favor of viewing wage-labor through the eyes of capital”. They admit that this objection is ideological: “These considerations do not show that labor is not the use-value of labor-power. Rather they register the unhappy consequences flowing from it being so treated”.³⁷³ Such a proposition would hardly have moved Marx—in fact he frequently

³⁷¹ Ibid, pp. 14-15.

³⁷² Ibid, pp. 14-15.

³⁷³ Ibid, p. 14.

dismissed socialist critics of Ricardo for this very attitude towards Ricardo's "cynical" statement of the way in which capitalism reduced labour to a mere commodity. In his critique of Proudhon, Marx observed that

"To put in the same category the cost of manufacturing hats and the costs of subsistence of man, is to transform man into a hat. The cynicism is in the things themselves, and not in the words which express these things. Some French writers ... give themselves the innocent satisfaction of proving their superiority to English economists by seeking to observe the etiquette of 'humanitarian' language; if they reproach Ricardo and his school with their cynical language, it is because they are annoyed at seeing economic conditions exposed in all their crudity".³⁷⁴

In sum, their attempt to escape the logical consequences of Marx's analysis of commodities, and to resurrect the belief that labour power is the only source of value, requires the abandonment of the absolute theory of value which is the lynchpin of the classical approach, in favour of a relative theory of value. To explain exploitation within this framework they presume that labour power is in continuous oversupply, specifically because it is not produced as a commodity but by a non-capitalist institution, the family, which does not respond to market signals as commodity producers do when supply exceeds demand. To explain a positive wage in the midst of permanent oversupply, they have recourse to the fact that labour resists extraction, and must therefore be coerced to deliver on its contract by, *inter alia*, the threat of the sack; but their explanation in effect reintroduces the absolute value of labour. This supposedly superior alternative to Marx's dialectic of the commodity would in fact reduce "Marxian" analysis to a minor rump of the supply and demand approach, differing from the mainstream only by the proposition that exploitation exists and profits occur because labour power is in continuous oversupply.³⁷⁵

While their proposed revision of Marxism would be a grave mistake, their fundamental ground for proposing this course of action—that labour power is not a commodity—deserves development. However it is a development which could occur within Marx's general dialectic, rather than at its expense, as they acknowledge in their conclusion.³⁷⁶ The commodity aspects of labour, which capitalism brings to the fore, cannot be a complete

³⁷⁴ *The Poverty of Philosophy* op. cit., pp. 54-55.

³⁷⁵ On this point it is worth noting that neoclassical theory sees the size of the workforce as the final determinant of the size of output at any given time, while neoclassical growth models normally have the rate of growth of the labour supply as a major determinant of the equilibrium growth path. Supply and demand theories can thus provide reasons why labour should not be in continuous glut, despite the fact that it is not produced as a commodity.

³⁷⁶ They comment that "Marx never ceased to be infatuated with the Hegelian method of seeking truth through the exploitation of the joint validity of a proposition and its negation. The assertion that wage labour is a commodity is just such an assertion" (*Ibid*, p. 17), but then comment that "Those of us less enamoured of such grand dialectical reason would do better to assert that wage-labour enters into exchange relations, but is not a commodity". This smacks not of criticism but of an inadequate appreciation of Marx's use of the dialectic. This is evident in their description of Marx treatment of the commodification of labour as "undialectic" (*Ibid*, p. 4.), even though they had previously observed that Marx insisted that labour power is never in fact completely reduced to the status of a commodity: "His frequent references to the 'peculiarity' of labour power as a commodity bespeaks this duality". (*Ibid*, p. 3.)

characterisation of labour. In true dialectical fashion, these non-commodity aspects of labour power will behave in opposition to the commodity aspects, resisting the tendency to reduce the wage to mere subsistence, resisting the attempt to extract labour, insisting in a share of the surplus generated by the system. These facets of labour power under capitalism can easily and fruitfully be developed on top of the foundation of the dialectical analysis of commodities in general, with the latter being the explanation for the source of surplus, and the former explaining the class struggle between labour and capital over the division of the surplus.

The immobility of labour

Wolff begins from much the same point as Bowles and Gintis—the impossibility of deriving any special role for labour power out of its commodity status alone;³⁷⁷ he likewise believes that Marxist theory should find such a special role. However, rather than following Bowles and Gintis and rejecting the characterisation of labour power as a commodity in its entirety, he proposes to carry this characterisation to its logical conclusion, and treats labour power as the commodity product of a peculiar industry which is constrained from earning the average rate of profit.

He skips over Marx's dialectic of commodities entirely, focusing instead on the explanation of the source of surplus which satisfied the traditional Marxist school, the difference between labour and labour power.³⁷⁸ He argues that Marx derives the result that labour power is the source of surplus value from two assumptions: “that labour is the substance of value, so that the value of a commodity is determined by the quantity of labour directly or indirectly required for its production; and second that labour power, or the ability to labour, can be distinguished from labour, or the activity of labouring”. Wolff asserts that the first assumption “is very much in question”,³⁷⁹ and while the second assumption is undoubtedly correct, it is irrelevant. He goes on to establish that any commodity can be shown to be the “source” of surplus value, without needing to distinguish between the “commodity” and “commodity-power”.³⁸⁰ He concludes that “the choice of labour as ‘substance of value’ is arbitrary, and without significance, unless it can be shown that

³⁷⁷ Wolff, R.P. “A critique and reinterpretation of Marx's Labour Theory of Value”, *Philosophy & Public Affairs*, Volume 10 No. 2, 1981, p. 89. However it should be noted that in his lead up to discussing Marx's own variant of classical theory of value, he displays a greater appreciation than do Bowles and Gintis of the evolution of the concept of absolute value from Smith to Marx.

³⁷⁸ It could be presumed that he would agree with Bowles and Gintis that Marx's general commodity analysis derives the result that labour power is not the only source of value, since he reaches the same result here, and acknowledges Bowles at the end of his article.

³⁷⁹ *Ibid*, p. 98.

³⁸⁰ “by ‘the labour value of a commodity’ we mean nothing more nor less than the quantity of labour directly or indirectly required to produce one unit of that commodity. We can just as easily ask how much corn, or iron, or cloth is required directly or indirectly to produce one unit of each commodity.” (*Ibid*, p. 99). Taking the commodity A as his numeraire, he finds that you can re-express the physical surplus produced by the system in terms of its A-value. An equation can be derived which says that “the surplus A-value extracted from the A-inputs exactly equals the A-value of the physical surplus produced in the system as a whole. This result is obtained without assuming that labour is the substance of value, and without attempting to draw a distinction between A and A-power. So Marx is wrong”. *Ibid*, p. 100.

labour is in some way formally distinguishable from all other commodities”.³⁸¹

Wolff believes that Marx’s insight that labour power is different from other inputs is “fundamentally correct”, but that his analysis of why it was different was incorrect. He proposes an alternative analysis, which is based on the standard n-industry single product model, but introduces a “formal peculiarity” which he argues captures Marx’s insight: labour power is produced by an industry where the ‘productive capital’ is immobile, and therefore that industry does not earn the average rate of return. Taking the extreme situation of this labour power industry rate of return being so high that the average for all other industries is zero, Wolff finds that all commodities exchange at their labour-values, and commodity exchange acts to transfer the surplus generated in all other industries to the labour-producing industry. Between this and the other extreme of the labour-producing industry earning a zero rate of return, he finds a non-linear inverse relationship between the labour-producing and average rate of return, and a similar relationship between the real wage and the average rate of return.

He presumes that the rate of return in the labour-producing industry will normally tend to zero, because of the impact of industrial reserve army.³⁸² In general, if the rate of return is less than the average, then commodities other than labour power will exchange for more than their labour value, resulting in a transfer of value from the labour-producing sector to all other sectors.³⁸³

Wolff’s rejoinder to the criticism that labour power is not in fact a produced commodity is much closer to the spirit of Marx’s dialectics than Bowles and Gintis’s rejection of the commodification of labour: he believes that this treating labour power as a true commodity and yet restraining the mobility of the capital involved in its production captures the “mad logic” of the way capitalism attempts to treat labour. His treatment also differs from Bowles and Gintis’s in that it does not argue that labour power is the only source of value or profit; in the event that the labour-producing industry earns a rate of return equal to the average, there will still be profit in every sector, though there will be no transfer of value from the labour-producing industry to other industries.

³⁸¹ Ibid, p. 101.

³⁸² “Under what circumstances will rho [the labour-producing industry's rate of return] actually go to zero? Presumably the answer is: when a reserve of capitalists lurks at the edges of the market, possessed of a capital which they can use for no other purpose than to produce labour power, and willing therefore to throw it into production for any price that will enable them to halt its otherwise inexorable depreciation. Which is to say, the reserve army of the unemployed.” Ibid, pp. 111-12.

³⁸³ “the extraction of the surplus comes about through the fact that the workers are forced to sell their product (labour power) at its labour value, but must purchase the non-labour inputs into their production process (that is, their food, clothing and shelter) at prices driven above their values”. Ibid, p. 114.

“We need a formal model of an ironic, dialectical, relationship between appearance and reality.... If we agree with Marx that capitalism has its own mad logic, then we will search for a model that embodies both the logic and the madness of capitalism. I suggest that the correct way to begin this process is to treat workers as though they were petty entrepreneurs, producers, producing a commodity—labour power—for the market, and then capture the inner madness of this way of thinking of them by stipulating that they, alone among all capitalists, are unable to shift their capital about from sector to sector.” Ibid, p. 111.

However despite these differences with Bowles and Gintis, Wolff's argument shares an important weakness: his claim that the labour-producing industry generally earns a lower rate of return than the average is as open to empirical falsification as Bowles and Gintis's claims that the labour market is continuously glutted. This objection was made by Roemer,³⁸⁴ who also pointed out that even if the rate of return for the labour-producing industry is the same as in every other industry, labour power is still 'exploited' in a formal sense in Wolff's system, because his equations "define a productive technology, and hence positive profits mean the 'formal' exploitation of every factor".³⁸⁵ The logical problem with Wolff's notion of exploitation—that producers of labour power earn less than the average rate of return, and hence pay a price for commodities which exceeds their labour value—is that, while it is true that producers of labour power are unable to move their 'capital' into any other industry, likewise any other industry is unable to move its capital into the production of labour power, "because slavery is illegal".³⁸⁶ Thus if the rate of growth of the economy exceeds the rate of growth of the labour force (and the counteracting influence of increases in productivity) for some time, it is possible in a market economy that the rate of return in labour power production would exceed that of the rest of the economy.³⁸⁷ Roemer claims that this would extinguish the exploitation of labour power in Wolff's sense, and in fact lead to the conclusion that labour power was 'exploiting' all other industries.

Wolff's reply to Roemer agreed that, technically speaking, all inputs to production are exploited in the sense that "to exploit a factor is to extract from it more value than is contained in it",³⁸⁸ thus conceding that labour power is not the only source of value and profit. He also conceded that at times labour shortages may push the rate of return on the production of labour power above the social average, but argued that in general there will be gluts of labour, not shortages.³⁸⁹

It is apparent that Wolff's argument has been weakened, and that it too cannot provide a strong basis for the proposition that labour power is the only source of value. This leaves

³⁸⁴ Roemer, J.E. , "R.P. Wolff's reinterpretation of Marx's labour theory of value: comment", *Philosophy and Public Affairs* , Volume 122 No. 1, 1983, p. 70. Roemer expressed himself as in complete agreement with Wolff's opening proof as regards labour power possessing "the magical property of being able to deliver more value than it itself contained. Wolff shows that any commodity possesses this marvellous characteristic in a surplus-producing economy.... Thus the 'secret of accumulation' cannot lie in the exploitation of labour any more than in the exploitation of corn or of steel." *Ibid*, pp. 70-71.

³⁸⁵ *Ibid*, p. 72. It should be noted that the same point results from Marx's dialectical analysis of commodities: every commodity input to production can be exploited, in the sense that there can be a quantitative gap between each commodity's use-value in production and its exchange value.

³⁸⁶ *Ibid*, p. 74.

³⁸⁷ Roemer provides a "back of the envelope calculation" for Japan, which indicates that the rate of return on labour power production there is 33%—presumably much higher than the average rate of return on capital. *Ibid*, p. 74.

³⁸⁸ Wolff, R.P. , "Reply to Roemer", *Philosophy and Public Affairs* , Volume 122 No. 1, 1983, p. 84.

³⁸⁹ "On occasion, of course, there may be a labour shortage which drives up the rate of return on production of labour to a point at which it equals or even exceeds the competitive rate of return on capital. But Marx, in keeping with the other classical economists, holds that historical forces will keep the wage at or near subsistence." *Ibid*, p. 86.

only one viable interpretation: that Marx was wrong to ascribe to labour power the unique power of creating surplus value. As subsequent Marxists have made logical errors trying to defend this notion, so too Marx must have made logical errors to reach this “conclusion” in the first instance. It is to these that we now turn.

Marx’s Logical Errors

Had Marx not developed the dialectic of the commodity, the transformation debate would have encapsulated all the logical shortcomings in a labour theory of value. However as this thesis has shown, the dialectic between use-value and exchange value was an essential element of Marx’s thought—the very foundation of his theory of value, which in turn was the foundation of much of his economic analysis and his predictions. As indicated in the preceding sections, this dialectic is in itself contradictory to a labour theory of value. However, Marx evidently did not believe so; therefore this formidable logician must have made errors in applying his own logic—errors of sufficient complexity to fool himself as well as a century of his followers. Four such errors can be found in the *Grundrisse* and *Capital*.

Grundrisse

Flawed Dialectical Opposites

As noted earlier, an important step in applying the dialectical method to a “unity” is to identify both the aspect of the unity which is brought forward and its the opposite which is pushed into the background. Marx initially completed this step correctly. Shortly after the initial development of the use-value/exchange value dialectic in the *Grundrisse*, Marx made a crucial statement about what constitutes use-value to the capitalist:

“The only utility whatsoever which an object can have for capital can be to preserve or increase it... The only use-value, i.e. usefulness, which can stand opposite capital as such is that which increases, multiplies and hence preserves it as capital.”³⁹⁰

This led to the search for the dialectical opposite of capital, and Marx found that it could not be a particular commodity, “but all commodities”:

“the opposite of capital cannot itself be a particular commodity, for as such it would form no opposition to capital, since the substance of capital is itself use-value; it is not this commodity or that commodity, but all commodities.”³⁹¹

Yet despite this statement that no single commodity can be the dialectical opposite of capital, Marx subsequently made the incorrect leap to positing labour as “The only use-value ... which can form the opposite pole to capital”.³⁹² He states that the joint substance

³⁹⁰ *Grundrisse* op. cit., pp. 270-71.

³⁹¹ *Ibid*, p. 271.

³⁹² Bose, op. cit. This is not to argue that output cannot be measured entirely in labour terms; see Steedman, “Marx on Ricardo”, op. cit. Sraffa of course also established this: Sraffa, op. cit., p. 35.

of all commodities

“as commodities and hence exchange values, is this, that they are objectified labour... The only use value, therefore, which can form the opposite pole to capital is labour (to be exact, value creating, productive labour...)”.³⁹³

This occurred because, prior to developing the insight concerning the role of use-value in economics, Marx had defined labour as the substance of all commodities. It therefore appeared to him that he could replace all commodities with “the substance of all commodities”, without committing an error. Hence he made the incorrect step from saying that no one commodity could be the opposite of capital—and hence the one thing which “increases, multiplies and hence preserves it”—to saying that labour was that sole commodity.

When considering Smith, one of the major criticisms he made was that he attempted to reduce the value of all commodities to the “three great sources of revenue”, wages, profit and rent. His critique was that Smith omitted a fourth and major component, the need to replace commodities which had been used up in the process of producing the net output. Yet in arguing that labour was the only substance of all commodities, Marx is effectively stating that all goods can eventually be reduced to pure labour, with no commodity residue. Bose has shown the invalidity of this assertion.³⁹⁴ Its invalidity should also be intuitively obvious. The non-labour inputs into any commodity can eventually be reduced to the products of nature, but no further; to claim that they could be reduced further amounts to the claim that man made nature. Not only is this absurd, but it also would amount to a denial of Marx’s starting point of the inversion of Hegel’s idealism and of historical materialism, that man is a product of the material world, whose consciousness comes from (but can transform) its material basis. Thus Marx cannot be correct in claiming that labour is the substance of all commodities; the correct claim is, as Bose³⁹⁵ has proven, that labour and commodities are the root substances of all commodities, and hence the joint sources of value.

With this error in dialectical analysis firmly rooted in Marx’s mind, he effectively equates the value of machinery and raw materials to their use-value, or uses the value of these commodities where he should have used their use-value, whenever he considers the contribution to value of non-labour inputs to production.

The Conservation of Value

Discussing the transmission of value through the production process, Marx says that production does not alter the value content of the inputs to production; the value merely changes its form from input to product: “The value of the product can therefore only = the

³⁹³ Bose , op. cit. This is not to argue that output cannot be measured entirely in labour terms; see Steedman , “Marx on Ricardo”, op. cit. Sraffa of course also established this: Sraffa , op. cit., p. 35.

³⁹⁴ Bose , op. cit. This is not to argue that output cannot be measured entirely in labour terms; see Steedman , “Marx on Ricardo”, op. cit. Sraffa of course also established this: Sraffa , op. cit., p. 35.

³⁹⁵ And Sraffa before him.

sum of the values which were materialised in the specific material elements in the process... The value of the product is = to the value of the raw material + the value of the part of the instrument of labour which has been destroyed ... + the value of labour”.³⁹⁶ I earlier described this proposition as the “Conservation of Value” in production. At first he develops this proposition as if it means that there is no value (and hence no profit) created, eventually making the statement that “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”.³⁹⁷ His first step towards solving the puzzle is to postulate that the wage of the worker exactly equalled the value he added to production; then “an increase in the exchange value of the product would be impossible”.³⁹⁸ He soon solves this dilemma by reasoning that the value that labour adds in production is greater than the value the capitalist paid for it³⁹⁹—or in other words, that the use-value of labour is greater than its exchange value.

As is indicated by his initial contradictory postulate that the exchange value of the worker equals his value added (or use-value), his equation for the conservation of value has the use-value of labour power as one of its output terms, and the exchange value of labour power as one of its inputs. However he has the exchange value of the raw material and means of production as the two other inputs, and also the outputs. For the proposition of the “Conservation of Value” to be valid, its output terms should be the use-value of each input. This mistake was the essence of Marx’s error in treating the non-labour inputs to production: wherever he discusses production in value and use-value terms, he substitutes the value or exchange value of these inputs for their use-value.

Machinery Purchased “as effect, not cause”

This instance occurs in the midst of an otherwise accurate statement of the reasons why a capitalist purchases labour power. Marx makes a gratuitous reference to the reasons why a capitalist purchases a machine, which if accepted would overturn the most straightforward and least contentious of his axioms: that a commodity is purchased so that the purchaser may consume its use-value. He describes value as “an effect, never a cause”, and relates this to “the amount of labour by which an object can be produced”. As regards the purchase of labour power, he states that the living labour which the capitalist purchases is “not the exchange value, but the use-value of labour capacity”. He then continues with the statement “Just as a machine is not exchanged, paid for as cause of effects, but as itself an effect; not according to its use-value in the production process, but rather as product - definite amount of objectified labour”.⁴⁰⁰

Having previously identified the value (and hence in normal situations, the exchange value) of a commodity with “effect”, this statement amounts to the proposition that the capitalist purchases a machine for its value, and not for its use-value. This same proposition

³⁹⁶ Grundrisse op. cit., p. 312.

³⁹⁷ Ibid, pp. 317-18.

³⁹⁸ Ibid, p. 318.

³⁹⁹ Ibid, p. 321.

⁴⁰⁰ Ibid, pp. 673-74.

reappears in *Capital*, as Marx discusses the value productivity of machinery.

[Capital: Discussion of Machinery](#)

Applying Marx's value scheme to machinery gives the following results. The exchange value of a machine is the amount of "socially necessary labour-time"⁴⁰¹ needed to manufacture it. The capitalist buyer purchases it to make use of its use-value, which is the ability to manufacture commodities for sale. As with labour power, this use-value is a quantitative concept, not qualitative. Since there is no relation between exchange value and use-value, and in this case the two concepts are both quantitative, there will be a difference between the two. The difference between the two the capitalist purchaser pockets. In Marx's terminology, this is Surplus Value.

In *Capital*, Marx derived the contrary result, that the means of production cannot be a source of surplus value, by a convoluted misapplication of his own analysis of commodities. His discussion involved considerable confusion of the terms (labour) "value", "use-value" and "exchange value", and concludes with statements which can be paraphrased as saying that, in the case of the means of production, either the purchaser makes use of their exchange value, not their use-value, or that their use-value cannot exceed their exchange value. In effect, he adds special laws of exchange and use, applicable only to the means of production, which contradict the general laws from which he previously derived surplus from labour.

Marx begins with the assertion, not derived from his analysis of commodities, that the means of production can transfer no more than their exchange value to the product:

"The various factors of the labour-process play different parts in forming the value of the product. The labourer adds fresh value to the subject of his labour by expending upon it a given amount of additional labour, no matter what the specific character and utility of that labour may be. On the other hand, the values of the means of production used up in the process are preserved, and present themselves afresh as constituent parts of the value of the product".⁴⁰²

He subsequently begins to link the exchange value and the use-value of the means of production, by tying the depreciation of a machine—which is calculated on the basis of its exchange value—to its productive capacity—which is a function of its use-value:

"Value exists only in articles of utility... If therefore an article loses its utility, it also loses its value. The reason why means of production do not lose their value, at the same time that they lose their use-value, is this: they lose in the labour process the original form of their use-value, only to assume in the product the form of a new use-value... Hence it follows that in the labour process the means of production transfer their value to the product only so far as along with their use-

⁴⁰¹ As discussed later, this concept of value is itself flawed; but it will do as a measure of value.

⁴⁰² *Capital*, op. cit., p. 193.

value they lose also their exchange value. They give up to the product that value alone which they themselves lose as means of production”.⁴⁰³

There are two erroneous propositions in this paragraph, while another is ambiguous. The statement that the use-value of a machine reappears in the use-value of the product equates the use-value of the machine to the utility enjoyed by the purchaser of the goods the machine helps to produce. This is the same mistake as pointed out earlier with regard to Marx’s discussion of the use-value of labour and useful labour, where he equated the use-value of labour to the utility of the product of labour. The use-value of a machine is specific to the capitalist purchaser of the machine only. By arguing that the use-value of the machine reappears in the product, Marx is in fact contemplating the existence of abstract and measurable utility—something which Hilferding correctly pointed out is anathema to Marx’s theory of value.

The statement which links the transfer of value by the machine to its depreciation is incorrect. Hypothetically, a machine could add value to output without losing any value through physical depreciation.⁴⁰⁴ There is thus no necessity for a machine to lose its exchange value to add value to the product. Marx in fact stated this proposition correctly in the Grundrisse, where he argued that fixed capital adds value “only to the extent that it passes away as use-value in the production process”.⁴⁰⁵

The ambiguous statement concerns the transfer of value by the means of production. Which of their two “values” do machines transfer by losing that value in production—their exchange value or their use-value? If Marx meant that they transfer their use-value, then this sentence would be correct in terms of his analysis of commodities. But later he makes it clear that by this expression he meant that the means of production transfer not their use-value—which is the case with a worker—but their exchange value. He states that over the life of a machine, “its use-value has been completely consumed, and therefore its exchange value completely transferred to the product”.⁴⁰⁶ This amounts to the assertion that in the case of machinery and raw materials, what is consumed by the purchaser is not their use-value, as with all other commodities, but their exchange value. This is clearly a nonsensical proposition in terms of Marx’s analysis of the commodity. It is also easily the clearest expression of the contradiction in Marx’s application of his own logic which led to the conclusion that labour was the only source of value.

This ambiguity reappears as Marx discusses the example of a machine which only last six days. He at first states the correct proposition that the machine loses its use-value, but then equates this to its exchange value. He says that if a machine last six days “Then, on the

⁴⁰³ Ibid, p. 196.

⁴⁰⁴ Commodities which do not depreciate yet still contribute to production would be few and far between, but one obvious case is that of a chemical catalyst, which emerges unchanged from the reactions it enhances. Equally, a natural input to production can have use-value to the capitalist—i.e., can be a source of exchange value and hence surplus value—without itself having any exchange value.

⁴⁰⁵ Grundrisse, op. cit., p. 681

⁴⁰⁶ Capital, op. cit., p. 197.

average, it loses each day one sixth of its use-value, and therefore parts with one-sixth of its value to the daily product”, and draws from this the correct inference that “means of production never transfer more value to the product than they themselves lose during the labour-process by the destruction of their own use-value”.⁴⁰⁷ However the ambiguity between exchange value and use-value is strong, and his conclusion takes the incorrect fork. Stating his conclusion rather more succinctly than his reasoning, he says

“The maximum loss of value that they [machines] can suffer in the process, is plainly limited by the amount of the original value with which they came into the process, or in other words, by the labour-time necessary for their production.... However useful a given kind of raw material, or a machine, or other means of production may be, though it may cost £150 ... yet it cannot, under any circumstances, add to the value of the product more than £150.”

At this stage of his argument, Marx is no longer asserting that a machine operates as an exchange value in production. However, the proposition he sets out both derides the importance of use-value in his economics, and would, if applied to labour power, reap the conclusion that there is no surplus. Substituting labour for capital in the succeeding sentence makes the point: “In the labour process it only serves as a mere use-value, a thing with useful properties, and could not, therefore, transfer any value to the product, unless it possessed such value previously”.⁴⁰⁸

Clearly, Marx’s used his use-value/exchange value dialectic within a theory of equal exchange to correctly derive the existence of a surplus product from labour. He then misapplied it to reach the conclusion that no other input into the production process could generate surplus value. With his axioms properly applied, the conclusion is inescapable: all inputs into the production process can generate a surplus for the capitalist.

In a way Marx’s mistake was understandable, for the reasons first tendered by Böhm-Bawerk. Marx was wedded to the concept, which he believed was nascent in his classical predecessors, that labour was the only source of value. He believed that he had devised a logical foundation by which this proposition could be proved, not merely asserted. In fact, his dialectical logic provided a basis to transcend the Labour Theory of Value, by allowing the logical deduction that non-labour commodity inputs were also “true sources of value”, in the sense that a surplus could be generated from them.⁴⁰⁹ However he could not bring himself to make the step from believing that labour was the only source of value, to proving that it was not, so he “twisted and manipulated the long-suffering ideas and logical premises with admirable skill and subtlety until they actually yielded the desired result in

⁴⁰⁷ Ibid, p. 197. he reiterates this two pages on: “We have seen that the means of production transfer value to the new product, so far only as during the labour-process they lose value in the shape of their old use-value.”

⁴⁰⁸ Ibid, p. 199, three preceding quotes.

⁴⁰⁹ And also in the sense in which Bose uses the term, that non-labour commodities form part of the irreducible core of any commodity.

a seemingly respectable syllogistic form”.⁴¹⁰

There is an additional reason, which may also partly explain why this mistaken notion has held sway for so long. Labour differs fundamentally from both machinery and raw materials, yet at the same time it shares characteristics with each of them. Like raw material inputs, labour can be regarded as a form of circulating capital, since it can be purchased on a daily basis. It is thus very easy to measure the daily cost of labour. In a factory dominated by unskilled labour input, labour can be to some extent treated as homogeneous, and reduced to the same standard measure of the number of hours worked. Labour spends a specific length of time in the production process, and it is also very easy to calculate the daily output in relation to the daily labour input. Thus from these relatively trivial calculations it is a simple matter to show that each labour input produces more than it is paid in terms of the number of hours equivalent.

The same simple calculations are not possible with either raw materials or machinery. While the daily cost of heterogeneous raw materials can be calculated, those raw materials are normally consumed in the production process, and both their heterogeneity and their consumption mitigate against any calculation of a rate of surplus. As for the similarly heterogeneous machinery of a factory, it is not easy to calculate a daily cost, or to compare this to a daily rate of output. Thus while the truth is that all inputs into a production technology contribute to the generation of surplus, in practice it was simple to conceive of how labour contributed, but difficult to conceive of how the other inputs contributed. The labour theory of value approach thus attributed net productivity to labour only, while treating all other inputs as merely “transferring their own value to the product”. This failing is akin to that of the Physiocrats, who could easily perceive the physical surplus in agriculture, but could not conceive of a surplus in industry. The labour theory of value could easily perceive the surplus in industry in terms of the excess of working hours over the wage, but could not conceive of a surplus from the other inputs. Despite the fact Marx developed a system of logic which showed a way past this error of simplification, by the time he discovered it he was already too heavily wedded to the error to escape from its grasp. I could find evidence of only one isolated instance when he came close to breaking free.

One accurate application

There was one occasion when Marx did correctly apply his dialectic. If he had carried this through, then the proposition that labour is the only source of value may have died at Marx’s hand, rather than experiencing a resurrection. In the midst of a mass of arithmetic exploring how machinery could reduce the price of a product, thus giving an advantage to the capitalist who introduces it and yet resulting in a lowering of the rate of profit, Marx suggests precisely the method that he should have used to apply his dialectic of commodities to the question of the value productivity of machinery:

“It also has to be postulated (which was not done above) that the use-value of the

⁴¹⁰ Böhm-Bawerk, op. cit., pp. 79-80.

machine significantly greater than its value; i.e. that its devaluation in the service of production is not proportional to its increasing effect on production”.⁴¹¹

This statement effectively allows for the correct situation, that the use-value and exchange value of a machine can diverge—something Marx has previously implicitly disallowed in his treatment of machinery and material. While it could be suggested that Marx was simply considering the situation where a monopoly rent could enable a capitalist to reap a greater surplus, this is not supported by the text. The price which Marx considered the capitalist with the larger capital paying for inputs was the same as the price for the smaller capital—its value; likewise the product was sold for its value. Only if Marx had considered the larger capital forcing prices for inputs below their value, or the price for output above its value, could the issue of monopoly profits arise.

Marx’s language is also far too direct on this issue to escape the logic of the dialectic of commodities. Marx specifically refers to the use-value of a machine being greater than its value; this is completely within his analysis of commodities and independent of any discussion of market conditions. He then makes a very direct and accurate extension of this to the issue of depreciation, which unlike his discussion of depreciation in *Capital*, dissociates the productivity of a machine from its depreciation.

This one sentence should eliminate dispute over how Marx’s dialectic of commodities should be applied to machinery: the use-value of a machine will differ from its value, and as with labour we can assume that its use-value will be “significantly greater than its value”; in practice this will mean that the amount it loses in depreciation will be significantly less than the amount it contributes to the value of output.

Unfortunately, Marx never returned to this postulate. The subsequent arithmetic to this statement takes two capitals of different organic compositions, with the one with a higher organic composition also having a higher rate of surplus relative to labour (which is akin to the approach that Robinson took to the labour theory of value). It does not consider what Marx implies he is about to contemplate, that is, a machine whose use adds more value to output than it loses in depreciation. The statement thus remains as an island of logic amidst a sea of assertions that labour is the only source of value.

Such islands become rarer rather than commoner as Marx develops the dialectic of the commodity. Far from polishing the tool, Marx’s later developments tarnished it, obscuring the fundamental contradiction it uncovered in his labour theory of value. The earlier texts, up to the time of discovery of the dialectic, should be read not as preliminary and incomplete applications of the concept, but as explorations of it unfettered by the desire to make it consonant with past beliefs.⁴¹²

⁴¹¹ Grundrisse , op. cit., p. 383.

⁴¹² See the comment on Groll in Section 5.2.

An alternative: Marx's capital axioms

The discussion of Bowles and Gintis above shows that Marx's analysis of the commodity has in some quarters become a victim of the desire to maintain a labour theory of value. Equally, the analysis could likewise become victim to attempts to disprove the labour theory, if its proper conclusions on the source of value are not realised. Arun Bose accepts the view that there is no conflict between Marx's analysis of commodities and his assertion that labour is the only source of value. However because he wishes to prove that the latter assertion is unsustainable,⁴¹³ Bose therefore mistakenly argues for the rejection of Marx's treatment of the labour, for the precisely the opposite reason which motivated Bowles and Gintis. As a result, his work can throw little light on the issue of how to develop Marx's dialectics. However, his conclusions strengthen one of the results of a proper application of Marx's dialectic—that labour and commodities are the joint source of value. The complexity of the axioms from which this conclusion is derived, compared to the relative simplicity of the propositions which constitute Marx's dialectic, also serves to illustrate the merit of Marx's analysis.

As partial support for his analysis, Bose claims to have found a 'capital theory' Marx who, in contrast to the conventional 'labour theory' Marx, does not argue that labour is the only source of value.⁴¹⁴ In fact the vast majority of the quotes he tables concern the distinction Marx consciously made between capital as the social relation which both extracts surplus value and demands payment in proportion to itself, and capital as machinery, the constant capital input to production. While he often stated that capital as a social force was productive (in the sense of creating surplus value by forcing the worker to labour longer than his own needs necessitate), there was only one instance when Marx actually considered the possibility that machinery was physically productive, and as stated previously, this one skerrick was never developed.

Bose's raw materials for his analysis are a set of fifteen axioms, the first nine of which are used to prove what he terms his two "impossibility theorems", with the main one being that "labour is not, immediately or ultimately, the only or main source of price, surplus or profit".⁴¹⁵ The axioms themselves are rather less subject to objection than Marx's fundamental proposition that the use-value of a commodity plays no role in determining its exchange value,⁴¹⁶ and can be regarded as more basic propositions than Marx's dialectic of commodities.

The major axioms employed by Bose are:

⁴¹³ "labour is never the only or the main 'source of value' in any system which is defined 'as capitalist on the basis of a reasonable set of axioms". Bose, *op. cit.*, p. vi.

⁴¹⁴ *Ibid.*, p. ix.

⁴¹⁵ *Ibid.*, p. 16, 27.

⁴¹⁶ Marx's definition of use-value, which rules out the existence or significance of abstract use-value, logically precedes this statement. As for Bose's fundamental axiom, that "A capitalist economy must have positive accumulation out of positive profits in the long run", would only be disputed by "extreme environmentalists", etc. *Ibid.*, p. 228.

- A capitalist economy must have positive accumulation and positive profits in the long run.
- The object of capitalist investment and production is capital accumulation.
- No commodity can be produced by pure labour or by pure commodities.
- There must be net production of at least one basic commodity.
- Every production technology contains at least one basic commodity.

Bose's proof uses the technique of reduction, where the inputs into producing a commodity are reduced to indirect labour terms, and the resulting equation converted into an convergent infinite series. The common term in this series is l , where l represents labour from two periods hence, w is the wage rate, r the profit rate, and 1 signifies a unit of the standard commodity. Using the linear relation,⁴¹⁷ Bose illustrates that all terms in reduction contain either l or 1 , where 1 represents the standard commodity. This means that no matter how far the reduction to dated labour terms proceeds, there will always be a "positive commodity residue, with the consequence that, though "crystals" of direct and indirect labour ('congealed') labour-time are certainly 'contained' in commodities, ... their sum does not account for the entire 'substance' contained in a commodity".⁴¹⁸ Bose concludes that if commodities cannot be reduced to labour alone, then neither can value be defined as labour alone: it too must consist of labour and commodities.

Bose thus provides independent confirmation of the result that Marx himself reached in his original and correct application of the dialectic of commodities, that "all commodities" are the substance of value.⁴¹⁹ Bose's "capital" axioms reach the same conclusion about the sources of value as does Marx's dialectic of commodities, and in some ways they can be regarded as more fundamental. However, they are peculiarly "economic" axioms which would be difficult to integrate with other social analyses, and whose extension to other issues could be relatively arbitrary—though their further development within economics could be most fruitful. The axioms which Marx himself employed to analyse the commodity arose from dialectics, are easily integrated with other disciplines, and the dialectic provides its own dynamic for extensions to other issues within economics—with the non-commodity nature of labour being an obvious instance.

The Distinction between Labour and Labour Power II

Of the five fundamental propositions outlined above, points (1) to (3) and point (5) are not normally disputed. However many dispute point (4), arguing that in the case of the purchase of labour power by capitalists, the social standing of the parties is relevant. The basis for this objection is normally the distinction which Marx drew between labour and labour power. The argument goes that labour, the actual performance of work, is different from labour power, the capacity to perform work. When the capitalist hires a labourer, what he does is hire the capacity to work; he does not buy work itself. This distinction, it is said, does not apply to any other commodity: there is no such thing as coal power for example,

⁴¹⁷ which applies on the further assumption that a standard commodity exists.

⁴¹⁸ Ibid, p. 35, both preceding quotes.

⁴¹⁹ Grundrisse, op. cit., p. 271.

only coal. It is argued that this difference between labour and labour power is what gives rise to the extraction of surplus. Generally two variants of this case are put forward, with the choice depending on whether the proponent follows or ignores Marx's commodity dialectic.

The first is that the capitalist pays for one aspect (the capacity for labour) at its cost of production—the means of subsistence, measured in the number of hours of labour needed to produce them—and yet receives the other—labour itself, measured by the number of hours worked. The gap between the two is surplus value, a gap which arises “with no other commodity”.⁴²⁰ The second is the case as put by Desai, that the distinction between labour and labour power gives rise to a gap between the use-value and the exchange value of labour power, a gap which exists with no other commodity.

These arguments are based on a fundamental misconception of labour power in Marx's economics, though admittedly one abetted by Marx. While appearing to paraphrase Marx's comment that the exchange between labour and capital is essentially not an exchange at all, it is as much a misreading of Marx as the Hilferding/Sweezy “paraphrase” on the economic role of use-value. Marx breaks the exchange between labour power and capital into two stages, the first of which is an exchange like any other, the second of which is an “essentially different category”. He then uses labour power and labour respectively as shorthand concepts for the exchange value and use-value of labour power, which shows that to Marx the distinction between labour power and labour was an application of the exchange value/use-value dialectic, and not an independent and alternate methodology.

Marx describes the two stages of the exchange between capital and labour as:

“(1) The worker sells his commodity, labour, which has a use-value, and as a commodity, also a price, like all other commodities, for a specific sum of exchange values, specific sum of money, which capital concedes to him.

(2) The capitalist obtains labour itself, labour as value-positing activity, as productive labour; i.e. he obtains the productive force which maintains and multiplies capital, and which thereby becomes the productive force, the reproductive force of capital, a force belonging to capital itself”.⁴²¹

He notes that this double process does not take place in simple commodity exchange—i.e. the circuit of C—M—C, where the object is to exchange one use-value for another. It occurs only in the M—C—M circuit, where the object is to accumulate exchange value:

“In simple exchange, circulation, this double process does not take place. If commodity A is exchanged for money B, and the latter then for commodity C, which is destined to be consumed—the original object of the exchange, for [the owner of] A—then the using up of commodity C ... is of purely physical interest...

⁴²⁰ This paraphrases arguments which have been put to the author during the development of this thesis.

⁴²¹ Ibid, p. 274.

What he [the purchaser] does with commodity C is a question which belongs outside the economic relation. 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. Therefore, this is already a distinction of form between the exchange of capital and labour, and simple exchange—two different processes.... In the exchange between capital and labour, the first act is an exchange, falls entirely within ordinary circulation; the second is a process qualitatively different from exchange, and only by misuse could it have been called any sort of exchange at all. It stands directly opposite exchange; essentially different category.⁴²²

However, Marx's discussion of this double process is entirely in terms of the exchange value/use-value dialectic, and all commodities are subject to this general law, not just labour power. Thus any purchase of productive inputs can be characterised as having two stages, the first where equivalent is exchanged for equivalent (as the purchaser pays the cost of production of the commodity, its exchange value), the second where the purchaser exploits the inherent characteristics of the commodity (its use-value) in a process of production. This double process, which Marx discusses as if it pertains to the labour power exchange alone, applies to any exchange where the commodity in question will be an input to production—that is, where the commodity will be employed in what Marx called the general formula for capital,⁴²³ $M—C—M'$. Thus while labour is a unique “commodity” under capitalism, and the distinction between labour and labour power is part of what makes it so, this distinction is not what makes labour a source of surplus, let alone the only source.

The absurdity of explaining surplus on the basis of the distinction between labour and labour power can be made clear by considering what would happen if slavery still co-existed with free labour under capitalism, with slaves being hired out to other capitalists.⁴²⁴ Slave labour would then be equivalent to other commodities, in that the purchaser would hire from the slave owner a set number of hours of slave labour: the distinction between labour and labour power would evaporate. Yet given an absolute value basis for exchange, the price of the slave labour would be equivalent to the amount of commodities necessary for subsistence of the slaves. This subsistence quantity of commodities—the exchange value of slave labour—could be produced in far less hours than the hours of work hired by the capitalist—the use-value of slave labour—hence resulting in a surplus for him: the disappearance of labour power does not eliminate the difference between the use-value of labour (however produced) and its exchange value. On the other hand, the slave owner

⁴²² Ibid, p. 274-75. The words in brackets were added to clarify Marx's meaning.

⁴²³ Capital Vol. I, op. cit., Chapter 4.

⁴²⁴ Marx makes it clear that, for labour power to exist as a commodity, the labourer must be the one who sells his capacity to labour, and this must be all he is able to sell: “Labour-power can appear on the market as a commodity, only if, ... he must be the untrammelled owner of his capacity for labour... The second essential condition ... is ... that the labourer instead of being in the position to sell commodities in which his labour is incorporated, must be obliged to offer for sale as a commodity that very labour-power, which likewise exists only in his living self.” Ibid, p. 165.

would still make a profit out of the exchange, since he would likewise purchase the (slave) labour and commodity inputs to the production of slaves at their exchange value, and yet benefit from their use-value.

If Desai's artifact that capitalists exchange commodities at their use-value were instead the rate of exchange, then surplus from production would disappear. The purchasing capitalist would hire so many hours of slave labour, and pay exactly that many hours of labour equivalent for them. Profit would then evaporate for hirer and producer of slaves alike, leading to the curious claim that the elimination of slavery was vital to the existence of profit—a proposition any numerate 19th Century plantation owner would have laughed at.

Thus Marx's use of the distinction between labour power and labour was a shorthand for the dialectic between use-value and exchange value, and not an independent proof of the source of surplus value. However the distinction between labour power and labour is still vital in Marxian economics. Its initial role is to represent the fact that the ability to labour has become a commodity. In a system of simple commodity production where the direct producers own the means of production, the capacity to labour could not be purchased, because the direct producers could put this capacity to work for their own profit. It is a commodity under capitalism because the direct producers have no ability to produce any other commodity for sale, since they have no access to the means of production. Thus the concept of labour power represents the commodification of labour. This was not necessary to generate surplus and profit in the first instance (since this could be gained from the exchange of other commodities at their cost of production), but it greatly enhanced the amount of profit, firstly by making the most productive force a commodity, and secondly by letting capitalists intensify the working day far beyond the level which simple commodity production required.

The second and underdeveloped legitimate role of the concept of labour power in Marx's economics is as part of the dialectic of labour. The ability to perform work is just one aspect of a person, yet it is the only aspect that capitalism brings forward in its attempt to treat labour power as a commodity. Pushed into the background are all other non-commodity aspects of a person, the aspects which cannot be reduced to a monetary value. The attempt to treat people as commodities—and hence pay them at their "value"—leads to a dialectic tension between the commodity and non-commodity aspects of labour. Thus workers can be expected to behave in ways which diametrically oppose their characterisation as commodities, by refusing to produce despite the fact that their commodity value has been paid, by demanding more than their value in payment, by demanding that the system of commodity production pay for improvements to the non-commodity aspects of their existence: in short by demanding all the improvements to their material and social existence that Western working class movements have demanded (and frequently won) over the past two centuries from capitalism and the capitalist state. Thus a proper application of Marx's dialectics to the issue of labour power implies that as a rule labour would be expected to receive more than its value, not less as alleged by Bowles and Gintis and Wolff.

Elements of this approach can be found in Marx's writings, particularly in those which

preceded his attempts to solve the ‘transformation problem’. While he believed in the existence of a tendency of the rate of profit to fall (which would act in the long run to depress the wages of workers to intolerable levels) it is nonetheless clear that outside the action of this “tendency”, he saw the value of labour as the minimum level of wages, a minimum which would only be achieved by complete commodification of labour—which, as stated above, involves the successful denial (by the capitalist class) of the non-commodity aspects of labour. In his critique of Proudhon, Marx states that “The natural price of labour is nothing but the minimum wage”.⁴²⁵

In a section of the *Grundrisse* entitled “The minimum of wages”, Marx shows that the statement that labour receives only its value is an assumption, to be dropped at a later stage of analysis:

“For the time being, necessary labour supposed as such; i.e. that the worker always obtains only the minimum of wages. This supposition is necessary, of course, so as to establish the laws of profit in so far as they are not determined by the rise and fall of wages or by the influence of landed property. All these fixed suppositions themselves become fluid in the further course of development”.⁴²⁶

When criticising Ricardo for not realising the role of use-value in economics, he implicitly describes the value of labour as a minimum level for the wage.⁴²⁷ In his discussion of the Physiocrats, he comments that “the value of the labour power is equal to the minimum of wages”,⁴²⁸ while when discussing Smith, he refers to “the minimum wage, alias the value of labour power”.⁴²⁹ It is probable that the intended third book on wage-labour⁴³⁰ would have dropped the “supposition” that labour receives only its minimum wage, to explore the consequences of labour receiving a payment above its value—and thus regaining part of the surplus from capitalists.

The contributions by Bowles and Gintis, Wolff and Bose all share the flaw that they neglect the importance of Marx’s dialectical method. Bowles and Gintis explicitly reject the highest fruit of this method, his analysis of the commodity. Wolff has a greater appreciation for the method, but his proposed handling of the non-commodity aspects of labour is itself non-dialectical—he suggests handling these aspects by amplifying the characterisation of labour as a commodity. Bose’s approach by-passes Marx’s dialectics to focus on the construction of a purely axiomatic foundation to post-Marxian analysis. With Marx’s dialectic of commodities properly in place, it is possible to integrate the worthwhile

⁴²⁵ The Poverty of Philosophy , op. cit., p. 55.

⁴²⁶ Grundrisse , op. cit., p. 817.

⁴²⁷ “Ricardo, e.g., who believes that the bourgeois economy deals only with exchange value, and is concerned with use-value only exoterically, derives the most important determinations of exchange value precisely from use-value, from the relation between the two of them: for instance, ground rent, wage minimum ”. Ibid, pp. 646.

⁴²⁸ Theories of Surplus Value , Part I, op. cit. , p. 46.

⁴²⁹ Theories of Surplus Value , part II, op. cit., p. 223.

⁴³⁰ See Oakley, *The Making of Marx's Critical Theory*, op. cit., pp. 105-116.

insights of Wolff and Bowles and Gintis as an extension to the dialectical analysis of capitalism developed by Marx. However, this has the reverse effect on the question of the level of wages and the consequent degree of exploitation of the workforce. Both Bowles and Gintis and Wolff attempt to establish that labour is different than other commodities because it receives a payment which is less than its value,⁴³¹ and is therefore exploited. In practice, because of the dialectical nature of labour power, workers should receive a payment which exceeds their value in all societies where their political power exceeds zero.

There is an additional aspect of the commodity labour power which distinguishes it from other commodities in a manner that affects the creation of value, and this is partially captured by Bowles and Gintis and by Wolff. This is that labour is the only input to production which is not itself produced for a profit. However, Bowles and Gintis were at error to describe this as the sole reason that labour power is a source of surplus value. It is rather a reason for distinguishing between the production of commodity inputs to production and the “production” of labour.

In the case of produced means of production, the capitalist who manufactures the means of production sells them at their exchange value, and realises the surplus value emanating from his production process. Then the capitalist who purchases the means of production takes advantage of their use-value, but has paid the lesser sum of their exchange value to acquire them. He thus also makes a surplus out of the productive utilisation of the means of production, which he realises when he sells the commodities produced (in conjunction with labour) by these means of production. Thus, with the means of production the capitalist class has “two bites at the cherry”. With the correct application of Marx’s analysis, one bite goes to the producer of the means of production, who realises his profit in sale, and the other to the consumer of the means of production, who realises his profit in use.

There is only one bite at the cherry for labour-power because labour-power is not produced for sale. The worker sells his labour power in order to purchase the commodities necessary for survival; he does not sell it in order to produce other commodities. However this is not the source of capitalist profit. If, instead of being raised in families, workers were raised in a Brave New World with bio-technological means of production, then on Marx’s exchange value/use-value schema, capitalists producing labour-power would make a surplus out of the labour and means of production purchased for their manufacture. Yet this would not prevent other capitalists from making a profit by employing them and utilising their use-value.

Technically this aspect of labour power can be captured in a manner similar to that employed by Wolff. The production of all other commodities involves the generation of a surplus; the production of labour power does not. Thus, if labour is incorporated into a schema of the production of commodities by means of commodities, the “labour producing

⁴³¹ In Wolff’s case, he tries to establish that labour receives its value, but has to purchase other commodities at prices above their value.

industry” should in the first instance be shown as not generating a surplus for itself.

Surplus from a Technology

The fact that all inputs to a productive technology are potential sources of surplus for the capitalist means that, effectively, it is impossible to ascribe a particular rate of surplus to any input independent of any other. In particular, while the equation is still valid, it is invalid to argue that is proportional only to the labour input. The only sustainable argument is that each productive technology in an industry generates an overall rate of surplus, which bears no necessary relation to the cost of inputs, whatever unit of measurement is used.

This simple scheme is complicated by the non-commodity nature of the most essential input, labour. As outlined above, to accurately characterise the “peculiar” conditions of production of labour, the “labour producing industry” should be shown as not generating a surplus for itself—thus resulting in a zero rate of return, similar to the lower rate of return suggested by Wolff. However this simple scheme can only be maintained if labour power is reduced to the status of a commodity, which requires the working class to be devoid of political and industrial influence. Where this is not the case, the payment to labour power will exceed its commodity valuation. This payment above its value—which reflects the dialectic of labour—could be less than, equal to, or greater than the rate of return earned on the strictly commodity producing industries.

11. Conclusion

The conclusion that labour cannot be the only source of value has long ceased to be novel. As well as being fundamental to neoclassical economics, it has been asserted explicitly or implicitly by, amongst others, Sraffa, Steedman, Hodgson, Roemer, Wolff, R.P., Wolff, R.D., Steedman, Bandyopadhyay, and Carling. What is novel about my proof of this result is that it has been reached using Marx's fundamental logic. It is thus rather more difficult for those who wish to maintain a labour theory of value—rather than an absolute theory of value—to oppose, since in the past the last refuge of defenders of the labour theory has been that Marx said it was so. I hope I have proved that, had Marx properly applied his own logic, he would have said it was not.

Another difference is that, since my conclusions flow naturally from Marx's own reasoning, those parts of his analysis which do not depend on labour being the only source of value remain intact. Other critics of the labour theory of value would abandon Marx's historical analysis, his use of the dialectic and analysis of commodities: clearly these are in fact strengthened by my results. Similarly his comments on the reproduction process, the cyclical nature of capitalism, his analysis of credit, etc., are in no way affected.

Conversely, his conclusions which depend upon labour being the only source of value are in general overturned. Others have, using other methods, ably dismissed such notions as the tendency of the rate of profit to fall, and the need to transform values into prices within the sphere of production (though this particular corpse nonetheless possesses a considerable Phoenecian tenacity). My one contribution here is to indicate that, had Marx not misapplied his analysis of commodities, he would never have proposed these notions in the first place—at least as results derived from the conditions of production under capitalism alone.

There are other aspects of Marx's thought that have remained relatively undeveloped, which my results imply should be enhanced. The most prominent here would be the realisation problem, a product of what Marx described as the contradiction between the sphere of production, where exchange value rules, and the sphere of exchange, where use-value rules.

Meaning of Value

Marx believed that he had proved that labour was the substance as well as the measure of value. However the correct application of his dialectic arrives at the result which Bose reached by different means, that no matter how far back the inputs to production are reduced, there will always be a “positive commodity residue” as well as “‘crystals’ of direct and indirect labour (‘congealed’) labour-time”.⁴³² Commodities and labour together are thus the dual substances of value, and value itself cannot be reduced to the effort of labour in production alone. Therefore it is invalid to define value as “socially necessary labour-

⁴³² Bose , op. cit., pp. 35-36.

time”, as Marx did.⁴³³ A better definition, within the context of the classical approach that there is an absolute basis to the rate at which commodities exchange, is in fact the definition originally tendered by Smith: value is the difficulty of production,⁴³⁴ with that difficulty being a consequence of the use-value of both the labour and non-labour inputs to production.

As for the measure of value, Marx did not choose labour-time as his measure because of any superiority as a measuring tool over any other commodity. He was quite aware that labour was a poor measure of value, since its own value would change with changes in the conditions of production of the commodities which went to make up the wage bundle, and he criticised Smith for believing otherwise.⁴³⁵ However he did not share Ricardo’s hope⁴³⁶ that a standard commodity could be found.⁴³⁷ He chose labour as the measure of value because he believed it to be the substance of value, not because he believed it to be invariant. Since Marx’s axioms reach the conclusion that labour is not the only source of value, labour-time has even less to recommend it as a measure of value than Marx believed. However Roemer has provided a solid reason for using labour-time as a measure of value when considering issues of distribution, that it is the only commodity which can be provided equally by all members of society. The amount of labour expended, compared to the value of commodities received measured in terms of labour-value, provides the best indicator of social class. However while many people do not possess all commodities, all people possess the commodity labour power, and there are physical limits on how much labour anyone can put into production. Thus in the case of labour as a numeraire “there is a monotonic relationship between wealth and exploitation status: the wealthy are exploiters and the poor are exploited”.

Value of labour

Meek expressed discomfort with interpretations of Marx which basically argued that the value of labour was whatever wage labour received.⁴³⁸ Using Marx’s dialectical tools, it is apparent that the wage would best be treated as having two components: a pure subsistence wage reflecting the commodity aspect of labour and the dialectic of commodities, which is the value of labour, and a second component reflecting the non-commodity aspects of

⁴³³ Though value can be measured using labour-time.

⁴³⁴ “The real price of every thing ... is the toil and trouble of acquiring it.” Smith, A. , op. cit., pp. 13-14.

⁴³⁵ Theories of Surplus Value , Part I, op. cit, p. 77.

⁴³⁶ He argues that with any other commodity, there will be no correspondence between whether an individual is exploited in its terms and wealth and poverty: “In general, the k -exploited may be rich or poor, and the k -exploiters may be rich or poor”. Roemer , op. cit., p. 79.

⁴³⁷ Theories of Surplus Value, Part II, op. cit., p. 202.

⁴³⁸ “Third, I would want to say something more about Marx’s application of the theory of value to the problem of the determination of the value of labour power. While this part of his analysis may have been perfectly plausible when applied to capitalism in its competitive stage (with which Marx himself was of course primarily concerned), it seems to me to be very much less plausible when applied to contemporary capitalism, particularly in situations where a strong trade union can enforce a rise in wages and a strong monopolistic employer can pass on this increase in wages to consumers by raising prices. I am unconvinced by attempts of some modern Marxists to get out of this by redefining ‘the value of labour power’ so that it becomes equivalent, in effect, to any wage which the workers happen to be getting.” Meek , op. cit., p. xvii.

⁴³⁹ This still unavoidably contains elements specific to different societies; probably the best measure of its size in a

labour and the dialectic of labour, which is effectively a share in the surplus generated by the system of production.

The Sraffian decision to treat the wage as if it were continuously variable from zero to the entire surplus thus obscures an important issue in the determination of income shares, and also the question of the inherent stability of capitalist production. There are three complications to the relations of production that flow from the Marxian dialectic of labour. Firstly, if labour receives only its value, the “labour producing industry” differs from all others in that it receives a zero rate of return. Secondly, the dialectic of labour implies that in normal circumstances, labour power will receive a payment which exceeds its value—sometimes by enough to generate a “rate of return” equivalent to that in the commodity producing industries, sometimes by less, sometimes by more. Thirdly, both these divergences of labour power from the rates of exchange ruling for commodity producing industries will distort the system of relative prices, even before the issue of effective demand (and the impact of income distribution on it) is considered.

The division of the payment for labour power into two components also has the technical advantage that it allows a calculation of the specific rate of exploitation of labour (as opposed to the rate of exploitation of any other commodity), by first calculating necessary labour from the labour value of the commodities which go to make up the subsistence wage, and then comparing this to the average duration of labour. This provides an estimate of the “non-commodity” strength of the labour movement, using the ratio between the subsistence wage and the average wage as an indicator.

The Transformation Problem and the Rate of Profit

The transformation problem is the consequence of the propositions that the rate of surplus value was uniform across industries, and that surplus value was proportional to labour, whereas profit was proportional to the capital expended on both labour power and commodity inputs to production. If these premises were true, then there would be a divergence between rates of surplus value and rates of profit when the ratio of commodity inputs to labour inputs varied between industries. As Robinson argued, even given the presumption that labour is the only source of value, Marx’s linking of a higher capital to labour ratio to higher productivity has the consequence that rates of surplus value should diverge, with industries with a higher organic composition of capital having a higher rate of surplus value, and vice versa.⁴³⁹

However, the proof that every input to production can be a source of surplus value, which

particular society would be a payment which is equivalent to that society's accepted “poverty line”.

⁴³⁹ “If wages are equal in all industries, surplus per man employed (the rate of exploitation) varies with net productivity per man employed, and, in general, productivity per man is greater where capital per man is greater.... Thus the rate of exploitation tends to vary with capital per man employed.” Robinson, *op. cit.*, pp. 15-16.

flows logically and easily from Marx's basic axioms,⁴⁴⁰ establishes that rate of surplus value should tend towards uniformity across industries for the same reason that rates of profit should be uniform: capitalist competition. Since, potentially, surplus emanates from all inputs to production, there is no a priori reason why issues pertaining exclusively to production itself—such as the ratio of capital to labour—should cause a divergence between rates of surplus value and rates of profit.⁴⁴¹

There is thus no reason why a higher capital/labour ratio than average should be associated with a lower rate of surplus value than average. Therefore there is no technical problem in converting values into prices, and no technical transformation problem—in the sense that there is no reason why prices should systematically diverge from values, or rates of surplus value from rates of profit, on the basis of differences in capital intensity. Using Marx's own logic, this confirms Steedman's judgment from a Sraffian perspective that the transformation problem is a "pseudo-problem, a chimera".⁴⁴²

The tendency of the rate of profit to fall suffers a similar fate. This "tendency", like the transformation problem itself, was founded on the proposition that labour was the only source of value, and that there was a tendency over time for the ratio of capital to labour (measured in value terms) to rise. Since surplus can be garnered from all inputs to production, there is no reason why an increase in the ratio of commodity to labour inputs should lead to a decline in the overall rate of surplus.

The Realisation Problem

Eliminating the technical transformation problem does not entirely eliminate the problem of transforming values into prices, and the rate of surplus value into profit. There still remains what Marx called the realisation problem, of translating potential profit—which is what surplus value magnitudes can be regarded as indicating—into actual profit.⁴⁴³ The enormous emphasis which has been placed on "solving" the transformation problem—by Marx himself as well as by his followers—has kept Marxist attention focused on the circuit of productive capital, and a static problem of transforming value into price, at the expense of the dynamic and dialectical issues involved in converting commodities into money. It is one thing to say that inputs to production embody a given amount of value and hence surplus value (this is the meaning of Marx's concept of the "conservation of value" through production, which when applied to the use-values of inputs, is correct); it is another to actually convert those values and surplus values into money. This occurs in what Marx

⁴⁴⁰ And has been proven by so many theorists in so many different ways that it has ceased to be a heresy: see the in particular the references by Bose, Hodgson, Roemer, Wolff, but also Steedman, Bandyopadhyay, Carling.

⁴⁴¹ However the fact that the rate of surplus value is relative to a particular technology raises the issue of "monopoly rents" for patents, etc.

⁴⁴² Marx after Sraffa, *op. cit.*, pp. 14-15.

⁴⁴³ While the realisation issue has been considered by some Marxists, their analyses have been compromised by the perceived need to fit this issue within the proposition that labour is the only source of value (Sweezy's analysis of underconsumption in particular is useful here. See Sweezy, *op. cit.*, pp. 156-189.). Naturally this limit to analysis is also removed by the correct application of Marx's logic.

called the circuit of commodity capital and the circuit of money capital,⁴⁴⁴ where commodities are converted into exchange value, surplus value realised, accumulation achieved and funds procured for the further creation of surplus value.

It should be evident that the realisation problem is yet another manifestation of the dialectic between use-value and exchange value under capitalism, and that it is central to Marx's rejection of Say's Law.⁴⁴⁵ It also puts a Marxian perspective on Sraffian analysis. Sraffa's reproduction scheme amounts to the analysis of the sphere of production under the assumption that there is no contradiction with the sphere of circulation, and as such flows logically from the revised interpretation of the first Volume of *Capital*. A complete analysis of capitalism would require adding the dialectic of labour (which itself will cause a divergence between value and price), deriving the distribution of income from the system of production, and then exploring the myriad contradictions between use-value and exchange value within the sphere of circulation. The picture of capitalism which would emerge is of a dynamic, contradictory, conflict-ridden, but not terminal, economic system.

Marx's discussion of this issue is limited.⁴⁴⁶ His basic proposition is that the production process appears to provide no bounds to the conversion of surplus value, so that a focus on this circuit alone can imply that capitalism is free of crises.⁴⁴⁷ However there are many "barriers" to the conversion of surplus value into profit. In the sphere of production, exchange value is all that matters and use-value is irrelevant; yet to convert the exchange value embodied in commodities into money, the products must actually be use-values when transferred to the sphere of circulation. This is both in an individual sense as useful objects, and in a mass sense in the proportion of output to total demand. Further, in a setting of expanded reproduction the new value created must be met by a matching expansion of aggregate demand. The accumulation of capital can lead to failures in aggregate demand, since this accumulation can change the distribution of income between capitalists and workers on which the vector of outputs was based. These barriers restrict the "general tendency of capital"⁴⁴⁸ to expand incessantly, leading to crises and overproduction. A failure of aggregate demand to grow sufficiently to match the creation of new value, or disproportionality in the growth of different sectors are among the factors internal to capitalism which can lead to the value generated in production not being realised in circulation.

⁴⁴⁴ Which Desai validly asserts have been neglected. Desai, *op. cit.*, Ch. 5.

⁴⁴⁵ Groll provided a detailed examination of this aspect of Marx's concept of use-value in Groll, S., "The active role of 'use value' in Marx's economics", *History of Political Economy*, Vol 12 No. 3, 1980, pp. 336-371.

⁴⁴⁶ See the Grundrisse — In Notebook IV pp. 404-24, Notebook VI pp. 678-80, and "Capital as Fructiferous" in Notebook VII, p. 745-60—for his early discussion of this area. It is partially developed in Chapter 15 of Volume III of *Capital*. Groll, *op. cit.*, gives an excellent survey of this material.

⁴⁴⁷ "Inside the production process, realisation appeared totally identical with the production of surplus labour ... and hence appeared to have no bounds other than those ... posited within this process itself". (*Capital*, Vol III, *op. cit.*, pp. 404-05).

⁴⁴⁸ Grundrisse, *op. cit.*, pp. 415-16.

Value and Price

The sphere of production still provides a reason why values and prices should diverge: the peculiar conditions of the reproduction of labour power. There are additional reasons why values and prices will diverge, which pertain to the realisation problem. Values and surplus value pertain to production, while prices and profit pertain to circulation: values are what prices would be if there were no contradictions between production and circulation. Since there are contradictions, then in general they will not be the same, and divergences between value and price will lead to—and are in turn caused by—the cyclical nature of capitalism.

This particular distinction between value and price however becomes evident only at a much later stage of development of Marxian theory than when Marx introduced his production-based distinction. Again, it is probable that Marx intended turning to these issues in detail in his planned sixth book on the world market and crises, but was waylaid by the complex irrelevance of the transformation problem. However he does mention this source of a divergence between value and price in Volume III of *Capital*, though it is expressed in terms of a difference between actual prices and prices of production:

“The entire mass of commodities, ... including the portion which replaces constant and variable capital, and that representing surplus value, must be sold. If this is not done, or done only in part, or at prices below the prices of production, the labourer has indeed been exploited, but his exploitation is not realised as such for the capitalist.... The conditions of direct exploitation, and those of realising it, are not identical.... The first are only limited by the productive power of society, the latter by the proportional relation of the various branches of production and the consumer power of society. But this last-named is not determined either by the absolute productive power, or by the absolute consumer power, but by the consumer power based on antagonistic conditions of distribution, which reduce the consumption of the bulk of society to a minimum varying within more or less narrow limits”.⁴⁴⁹

The further development of this issue by Marx was rapidly sidetracked by the tendency of the rate of profit to fall (and indeed the excerpt above was part of a discussion of this tendency). With both the tendency and the transformation problem eliminated, this valid source of deviation between value and price can be properly developed as the next major aspect of Marxian analysis after the scheme of reproduction.

Labour and the Distribution of Income

Bowles and Gintis make the very good point that labour is not a commodity, in the sense that it is not produced by abstract labour for a profit. While their alternative “Marxian” framework should be rejected, their argument that Marx overstated the commodity nature of labour, and therefore underplayed the non-commodity aspects, has considerable merit. So too does the observation that the level of wages is not solely determined in the same fashion as the price of commodities, by the cost of production, but also involves a struggle

⁴⁴⁹ *Capital*, Volume III, op. cit., p. 244.

between labour and capital over the surplus-product. However, these insights cannot justify their complete rejection of the classical concepts of absolute value and the exchange of equivalents, and of Marx's analysis of commodities, and their return to the proposition that labour is the only source of value.

Their proposal would bury the insight that value is produced by all inputs to production (which can be derived by means other than just Marx's axioms, as Bose's work attests), and maintain the fiction that labour is the only source of profit. A better way to handle their criticisms of Marx's treatment of labour and the distribution of income between labour and capital is to regard the value of labour as Marx defined it as the minimum level to which wages can be suppressed, while dialectically acknowledging that (as a non-commodity) labour is both capable of and entitled to struggle with capital over the distribution of the surplus-product generated in production. Their observation that the "enjoyment" of the use-value of labour power by the capitalist is "problematic" compared to the consumption of any other good can also justify the need for a theory of industrial relations as part of wage determination. In this light, Marx's attempt to reduce the forces keeping labour to its value to the pressure of the industrial reserve army are clearly too simplistic,⁴⁵⁰ as is the presumption that this, the only "conscious commodity", could in fact be kept to its value.⁴⁵¹

Ideology

Despite Sweezy's, Meek's, Dobb's and Mandel's protestations to the contrary, the argument that labour was the only source of value made a major ideological contribution to the appeal of Marxian economics.⁴⁵² The replacement of this assertion with the correct position that labour and commodities are the joint sources of value will doubtless reduce Marxism's ideological potency. However, it does not convert Marxism into a doctrine supportive of the status quo; far from it. Unlike the neoclassical theory of distribution, this revised Marxism makes no implied judgment about the morality of the current distribution of income. The fact that at one pole the surplus generated by a production technology under capitalism will accrue entirely to the capitalists is simply a fact; it is not a justification for capitalists receiving the entire surplus. Equally, the fact that workers may affect the distribution of income in such a way that labour's wage effectively exceeds its value is not a judgment that labour's income is too high. Whatever the distribution of income may be simply reflects the relative power positions of workers and capitalists in a particular society, and the manner in which their power struggle is carried out.

It also continues to be a doctrine which predicts cycles, crises and waste under capitalism. The divergence of price from value (with the latter now representing the difficulty of production), the struggle over distribution and the effect of changes in the technical relations of production will lead to booms and slumps, while the directly monetary basis

⁴⁵⁰ Nonetheless this will be an input into determining the wage, as too will population pressures of the kind implied by Bowles and Gintis.

⁴⁵¹ Though, as mentioned above, Marx may have intended to remove this supposition in the planned book on wage-labour.

⁴⁵² To those who wished to hear such a message, of course; to those who regarded capitalism as a desirable system, this claim exterminated any appeal.

of Marx's theory—as represented in the two circuits C—M—C and M—C—M'—predicts monetary fluctuations related to and overlaid on the instability of the system of production.

However Marxism ceases to be a doctrine supportive of revolution in all circumstances. The immiserisation of the working-class, whether absolute or relative, is not inevitable under capitalism; whether it occurs or not depends on the relative power positions of capitalists and workers, the manner of their struggle over the division of the surplus, the extent to which capitalists reinvest their surplus, and the severity of specific downturns. Thus whether revolution is a sensible option depends on the particular features of each capitalist society. In some the working class may be better off under capitalism, while in others the behaviour of the capitalist class may make revolution justifiable in terms of the material conditions of the mass.

Relevance of Marxian Economics

It could be thought that acknowledgement of Marx's mistakes in applying his system of logic would lessen his stature as an economist, and reduce the influence of his thoughts. I would argue otherwise. Critics of the labour theory of value have argued for decades now that nothing of value in Marx's analysis depends on the labour theory of value, and in so saying they have generally been inclined to completely dismiss his analysis of commodities and his dialectical method. I agree that the labour theory of value contributed nothing of value to Marxian economics; indeed it stymied the development of classical political economy by Marx and by his followers. However I believe that Marx's analysis of commodities, and the general dialectic method on which this was based, was the foundation on which most of the many valuable contributions made by Marx to economics were made. Proper application of this method should provide many more worthwhile additions to the intellectual weaponry of Marxian analysis, based on an absolute theory of value. In this new tradition, which can exist co-operatively with Sraffian and Kaleckian economics while containing the superior concepts of dialectics and value, it should be to Marx's credit that he provided the dialectical analysis by which the labour theory of value could be transcended, and labour and commodities together regarded as the joint sources of value and determinants of exchange value.

12. Appendix: A Marx for Post-Keynesians⁴⁵³

This unpublished paper was written after the publication of two papers from this thesis:

- Keen, S. (1993). "The Misinterpretation of Marx's Theory of Value." *Journal of the History of Economic Thought* 15(2): 282-300.
- Keen, S. (1993). "Use-Value, Exchange Value, and the Demise of Marx's Labor Theory of Value." *Journal of the History of Economic Thought* 15(1): 107-121.

Introduction

Post-Keynesian Economics evinces a methodological paradox. On the one hand, it displays a far higher interest in questions of methodology than any other school of economic thought (with the possible exception of Austrian economics), and it has always been highly critical of the methodological foundations of rival schools, in particular the Neoclassical.⁴⁵⁴ Yet, on the other hand, Post-Keynesian economics has no accepted methodological foundations of its own.

This paper briefly considers recent attempts to rationalize this situation, as a prelude to putting forward the proposition that a methodological foundation for Post-Keynesian Economics has in fact existed for over a century. This foundation is one of two sets of axioms developed by Marx, but lost to Marxian political economy by its slavish adherence to the Labor Theory of Value. This lost set of axioms both contradicts the Labor Theory of Value, and provides an axiomatic basis from which the bulk of the accepted tenets of Post-Keynesian economics can be derived.⁴⁵⁵

Diversity, Philosophy, Axioms, and Deductive logic

The perceived wisdom amongst critics and proponents alike is that, while Post-Keynesians have many shared conclusions—the importance of effective demand, the probability of under-full employment, the endogeneity of money, and so on—the sole feature unifying Post-Keynesian analysis is opposition to neoclassical methodology. Harcourt and Hamouda 1988 made a virtue of this lack of a common analytic foundation, arguing that this enabled Post-Keynesians to use whatever methodology is appropriate to a given

⁴⁵³ The author would like to thank J.E. King and Marc Levoie for comments on earlier drafts of this paper.

⁴⁵⁴ In recent years, methodological warfare has even broken out with the once closely related Neo-Ricardians. See the papers by Steedman, Sawyer, Kriesler and Mainwaring (1992), and Steedman, Kriesler and Steindl (1993).

⁴⁵⁵ The key references which establish the existence of this second set of axioms are The Grundrisse (Marx 1857, especially pp. 267-68), where Marx first developed the "Commodity Axioms"; the Marginal Notes on A. Wagner (Marx 1879), where he affirmed the unique role of use-value in his economics in response to a conservative critic's claim that he ignored it; "Böhm-Bawerk's Criticism of Marx" (Hilferding 1904), where Hilferding employed these axioms to solve the puzzle of the reduction of skilled labor to unskilled (p. 145); The Making of Marx's Capital (Rosdolsky 1977), where the mainstream Marxist attitude that use-value was an irrelevance to Marxian economics was first challenged; "The active role of 'use-value' in Marx's economics" (Groll 1980), which detailed the myriad uses of the concept by Marx; "Use-value, Exchange-value, and the Demise of Marx's Labor Theory of Value" (Keen 1993a), which traces the development of these axioms and dissects Marx's attempts to avoid their consequences for the Labor Theory of Value; and "The Misinterpretation of Marx's Theory of Value" (Keen 1993b), which details the historical process by which these axioms came to be lost to conventional Marxism.

problem. However, there is little to differentiate this "horses for courses" (p. 25) attitude from the instrumentalism championed by Friedman (1953), nor is methodological *laissez-faire* consistent with the strong methodological objections that Post-Keynesians have to neoclassical economics. As Backhouse has pointed out (1988, p. 36), this implies that there should be some problems for which the neoclassical method is appropriate—a point that Post-Keynesians are in general loathe to concede.

One consensus that appears to have emerged over Post-Keynesianism concerns its philosophical perspective, with its roots in the evolution of Keynes's thinking. Several writers (Lawson, 1988, 1994; de Carvalho, 1988; Rotheim, 1988, 1989-90; Winslow, 1989; Lavoie, 1992) have argued that, by the time of *The General Theory*, Keynes had rejected his original atomistic view of logic and economic actors, which concluded that economic entities could be separately analyzed and understood in isolation from their relationships with other entities, in favor of a philosophy which postulates that the essential characteristics of an entity "are the outcome of its relations with other entities" (Winslow 1989, pp. 1173-74). This view, that Keynes's philosophy focused on the relations between things, whether characterized as "organicism" (Winslow, Rotheim, Lavoie), "realism" (Lawson 1988, Lavoie, Rotheim), or "transcendental realism" (Lawson, 1994), effectively places Keynes in the philosophical tradition of Hegel (Rotheim, 1989-90, p. 317) and hence Marx—though of course there is no suggestion of a direct lineage. Winslow instead attributes the change in Keynes's perspective to the influence of Whitehead (Winslow 1989, p. 1175-1179), whose concept of internal relations overcame the apparent difficulty that "everything must depend upon everything else", and that therefore "we cannot know about anything till we equally well know everything else." (Winslow 1989, p. 1175). Firstly, Whitehead proposed that internal relations form a nested hierarchy, with the wider contexts (that we are all human beings) being more stable than the narrower (that some of us are entrepreneurs), so that wider contexts can be treated as "given" in an analysis of the narrower ones. Secondly, the factors which are relevant in any given context are limited—given a particular interest (the evolution of the entrepreneurial function over the next 5 years), many aspects of reality can be ignored (the possible evolution of humanity over the same time period).

This version of organicism implies the ability to construct a systematic and yet organic analysis of reality. However, Lawson 1994 attempted to use a more elaborate version of organicism, Bhaskar's "transcendental realism", to philosophically justify the absence of such a system in Post-Keynesian economics. Lawson associated the axiomatic-deductive method with an atomistic conception of reality, and contended that deductive reasoning necessarily leads to ergodic models (Ibid., p. 524). Since Post-Keynesians reject ergodicity, they must also reject the axiomatic-deductive method, and hence there can be no foundation set of axioms, no common Post-Keynesian methodology beyond the transcendental philosophical core.

However, Lawson's identification of axiomatic reasoning with atomism is misplaced. Axiomatic logic need not lead to atomistic, ergodic models if those axioms themselves embrace non-ergodicity, as Davidson 1994 illustrates. Even deterministic axioms do not

necessarily lead to ergodic models, as chaos and complexity analysis have established: nonlinear deterministic analysis can generate models whose behavior is non-ergodic (Lorenz, 1993, pp. 5-25; Kelsey, 1988, pp. 19-23; Keen 1995). The identification of axiomatic reasoning with ergodicity is valid only for axioms which presume ergodic, linear and time-reversible relations between entities, or in other words, axioms which are themselves grounded in an atomistic vision of reality.

One consistent champion of the proposition that there is an axiomatic foundation to Post-Keynesian economics is Davidson, who argues that Post-Keynesian and neoclassical macroeconomics have common axiomatic foundations, and that neoclassical results are the consequence of three additional, special axioms that neoclassical macroeconomics adds to this common core: "(a) the axiom of the neutrality of money; (b) the gross substitution axiom; and (c) the ergodic axiom" (Davidson, 1994, p. 11; see also 1981, p. 168; 1984, p. 562). Since Post-Keynesian economics is based upon less axioms, Davidson asserts that it is the more general and thus the superior theory.

Davidson maintains that the common foundations of the two schools are the macroeconomics of the General Theory, together with Marshallian microeconomics (Davidson 1994, pp. 24, 55, 66, et alia). However, this acceptance of Marshallian microfoundations puts Davidson at odds with many other Post-Keynesian and heterodox economists, who have made developing alternatives to the Marshallian concepts of marginal cost pricing and the representative firm a major part of the non-neoclassical agenda (Sraffa 1926; Kalecki 1943, pp. 43-61; Eichner 1985, pp. 44-47, 151-152; Kriesler 1987, pp. 17-20; Reynolds 1987, pp. 53-82). Thus, though Davidson does show that fundamental Post-Keynesian results—such as the possibility of an unemployment equilibrium—can be derived from these foundations, his "Keynes-Marshall synthesis" cannot be accepted as a methodological basis for Post-Keynesian economics.

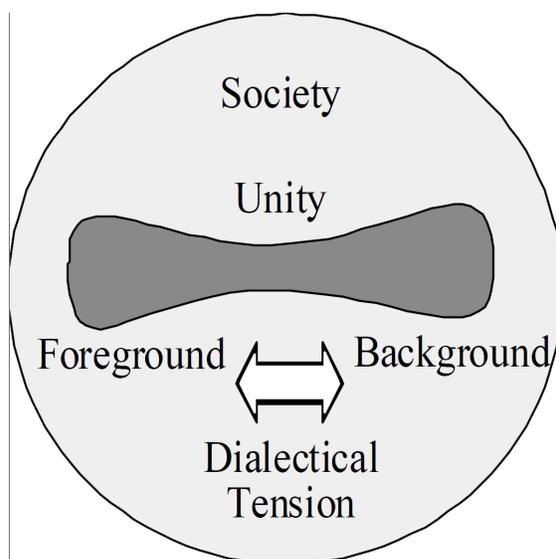
Elsewhere however, Davidson has argued that Keynes "knew that in order to transform the way the world thinks about economic problems, he had to displace the existing approach by a new set of axioms and logical analysis" (1981, p. 156), which indicates instead that an entirely different axiomatic foundation may be required for Post-Keynesian economics. If so, then there may be no shared axioms at all, and therefore the decision between the Post-Keynesian and neoclassical visions of economics cannot be made on the basis of the number of axioms alone. Instead, the realism of those axioms, and their ability to generate models which capture the major features of capitalism, must be assessed (Lavoie, 1992, pp. 48-49).

In what follows, I hope to establish that Marx's philosophy of dialectics, which is a kindred spirit to Keynes's mature philosophy of "organic unity, of discreteness, of discontinuity" (Keynes 1973, Vol. 14, p. 527), leads to axioms which are consistent with the non-ergodic vision of capitalism espoused by Post-Keynesian economics.

Dialectics and Organicism

Marx's dialectical analysis starts by treating any component of a society (a human being, a commodity, money) as a social unity—a unity in that it has an existence in its own right, but a social unity in that it must exist in a society, and can only be understood from that context (Marx 1857, p. 485). He then argues that the material forces of society will initially bring one aspect of the unity to the foreground, and that this necessarily pushes the other aspects of the unity into the background. However, the unity can neither exist nor be fully understood with just the foreground aspect, so there will be a dynamic tension between foreground and background (its "opposite") which will propel the development of the unity (see Figure 1). If this dialectical conflict is sufficiently powerful, it may lead to a transcending of the limitations of this unity, to bring about another, greater unity, which will itself have its own dialectic. Marx's concept of a unity is akin to what Winslow called a "complex" (Winslow 1989, p. 1175), and can embrace separate but related entities (capitalist and worker) as well as a single entity. Dialectics thus sees things as being defined primarily by their relations with other things, and is, like organicism, a philosophy of endogenous change.⁴⁵⁶

Figure 1: Dialectics



While the merits of these two related philosophies could be debated, Marx's key advantage

⁴⁵⁶ The popular description of the dialectic as involving a thesis, its antithesis, and finally a synthesis, is in fact derived from Fichte rather than Hegel or Marx. Marx never clearly set out his perception of the dialectic, and his interpretation of it must be gleaned by analyzing his application of it to a multitude of subjects. The Grundrisse is the work of Marx's where dialectical logic is most evident, and perhaps the best section—for the purpose of seeing how he applies this logic—is pp. 471 to 514, where he discusses pre-capitalist societies, and the forces that led to the rise of capitalism (this section has been separately published as *Pre-Capitalist Economic Formations*, Hobsbawm E.J., (ed.), 1964). For informative discussions of the role of dialectics in Hegel and in Marx, see especially Wilde 1989, and George 1987. A useful introduction to Hegel is provided in Singer 1983, though he does use the thesis-synthesis-antithesis analysis.

over Whitehead and Keynes is that he identified the crucial unity in capitalism, with its internal relations forming the outermost level of capitalism's "nested hierarchy" of social relations. This key unity is the commodity, and the dialectic of the commodity was the basis of Marx's second, lost set of axioms.

Marx's Two Sets of Axioms

Marx employed two distinct sets of axioms in his thinking. One set, which I will call Marx's Labor Axioms, has been treated as Marxism's sole intellectual foundation since Hilferding's 1904 rejoinder to Bhm-Bawerk. The other set, which I will call Marx's Commodity Axioms, was regarded by Marx as logically prior and superior to his Labor Axioms, though he believed—erroneously—that the two sets were consistent.

The Labor Axioms can be summarized as follows:

- Value is "socially necessary abstract labor-time";
- Under capitalism, when markets are in equilibrium, commodities exchange in proportion to the amount of value they contain;
- Under capitalism, the ability to perform work, labor-power, has itself become a commodity;
- In production, labor transfers its value directly to the product, while the commodities used up in production transfer their value indirectly;
- Labor is unique because of the difference between the commodity sold by workers, labor-power, and the commodity consumed in production, labor itself.⁴⁵⁷

If these axioms are accepted, then the exchange of commodities at their values results in a surplus for capitalists solely because of the unique attributes of labor. Capitalists buy the commodity labor-power from workers for its value (V, for "variable" capital), a subsistence wage which itself consists of a number of commodities whose production might require, for example, six hours of direct socially necessary labor-time. However, the commodity capitalists then put to work is not labor-power (the capacity to work), but labor itself, and the wage contract allows work to continue for more than six hours—perhaps twelve hours in Marx's day. This distinction between the commodity sold and the commodity used exists with no other commodity, and the quantifiable difference between the two is surplus labor time, which generates surplus value (S), and this is the sole source of profit.

Capitalism cannot be successfully analyzed with these axioms alone, however, since capitalists are motivated to get the highest possible return on their entire investment in both labor-power (V) and capital (C, for "constant" capital), and this rate of profit ($S/(C+V)$) differs from the rate of surplus value (S/V).⁴⁵⁸ If equilibrium prices were strictly based on values (axiom 2 above), and rates of surplus value were consistent across industries, then

⁴⁵⁷ Axioms 1-4 are arguably to be found in Smith and Ricardo (though with qualifications dispensed with by Marx); in this sense Marx's chief contribution to classical political economy was axiom 5, which solved the paradox that axioms 1-3 were apparently inapplicable to the most important exchange of all, that between capitalist and worker.

⁴⁵⁸ Steedman 1977 has of course shown that Marx's definition of profit is incorrect on several grounds; but this does not impinge upon the argument of this paper.

capitalists seeking the highest possible rate of profit would therefore abandon sectors with a high capital to labor-power ratio ("organic compositions of capital", C/V)—and thus a low rate of profit—in favor of those with a low C/V ratio, and thus a higher rate of profit. But no such tendency is evident in capitalism; hence equilibrium prices must not be strictly based on values, and this gives rise to two additional axioms:

- In competitive capitalism, equilibrium prices differ from exchange values, and are set by a markup on total capital employed, both variable and constant.
- Axioms 2 and 6 are reconciled by the transformation of values into prices.⁴⁵⁹

All of the above should be familiar to even passing students of Marx. The Commodity Axioms, on the other hand, will be unfamiliar to most Marxists, and involve a subtle but profound reinterpretation of the classical concepts of use-value and exchange-value. These axioms are:

- The commodity is the essential unity in capitalism;
- Commodities have two aspects: use-value and exchange-value;
- Under capitalism, use-value and exchange-value are incommensurable, so that the use-value of a commodity plays no role in determining its exchange-value;
- Use-value is an objective property of commodities, assessed however from the point of view of the consumer;
- The exchange-value of a commodity is the exchange-value of the commodities used up in its production;
- Under capitalism, the ability to perform work, labor-power, has itself become a commodity;
- Capitalism has two main circuits, the Circuit of Commodity Capital ($C—M—C$), where the objective is the consumption of use-values, and of the Circuit of Money Capital ($M—C—M+$), where the objective is the production of surplus value.⁴⁶⁰

Some 40 years after the publication of Marx's last work, Post-Keynesian economics began its development in the works of Keynes and Kalecki, but without an axiomatic foundation comparable to the rival Walrasian program. However, as I will now argue, Marx's Commodity Axioms can effectively provide that foundation, since the major tenets of Post-Keynesian economics flow logically from them.

[Price Formation and the Dialectic of the Commodity](#)

Post-Keynesian and Neo-Ricardian theories base price formation on the conditions of

⁴⁵⁹ The attempt to achieve an acceptable reconciliation has been a major, if not the major, intellectual focus of Marxian economics. See Desai 1988 for a recent survey; for a recent attempt to "solve" the transformation problem, see Mohun 1994.

⁴⁶⁰ Marx in fact referred to three Circuits of Capital, with the third being the Circuit of Productive Capital (Marx 1885, pp. 65-88); however, this third circuit is entirely contained within the second. While it is the basis for Marx's reproduction schema, and therefore an essential part of Marx's concordance with Post Keynesian and Neo-Ricardian analysis of production, this concordance is well-known, and I will therefore not discuss it further in this paper.

production, and assign demand the role of determining the quantity of output sold. These propositions are effectively embodied in axioms 3 to 5 above, and their justification therefore requires an explanation of how Marx came to these axioms.

In part, the route was intellectual inheritance. While the distinctions between the utility, cost of production, and price of a commodity are common to all schools of thought, the Classical school was characterized by its focus upon costs of production as the main determinant of price. In distinguishing use-value from exchange-value, and arguing that use-value is irrelevant to price formation, Marx was initially merely following the precedents of Smith, Ricardo, and indeed the Canonists (Meek, 1973, p. 12). Where Marx transcended his classical forebears was in applying dialectical logic to the distinction between use-value and exchange-value, and as a consequence, greatly enhancing the role of use-value in political economy.

Marx argued that a product is a unity, which in all societies contains both the useful purposes to which it can be put, and the effort needed to produce it; but the ability to be exchanged for other products depends upon the nature of social relations. In early human society, "the economic aim is ... the production of use-values" (Marx 1857, p. 485), and social relations determine the distribution of products. Exchange, and the concept of exchange-value, develops from contacts with other communities, with the proportions in which one product is exchanged for another being "at first quite a matter of chance" (Marx 1867, p. 91). It is quite feasible that, in these initial transfers, perceptions of the utility of the alien products influence the exchange ratio. However, the repetition of this process leads to some quantity of goods being produced specifically for trade, and from then on relations of production dominate: "From that moment the distinction becomes firmly established between the utility of an object for the purposes of consumption, and its utility for the purposes of exchange. Its use-value becomes distinguished from its exchange-value." (ibid.)

Classical economists defined use-value itself in a fundamentally different fashion than the more familiar neoclassical concept of utility. For them, use-value was the objective function of a good or service, which depended upon the application made of the good by the purchaser, but not upon the purchaser's subjective valuation of the good.⁴⁶¹ This contrasts with neoclassical economics, where utility is the subjective valuation of a good, which necessarily can vary from individual to individual. The neoclassical concept is of "abstract" utility as a general property of commodities, which is made commensurable—though not additive—via the contrivance of marginal utility. In contrast, use-value is "concrete": it pertains to a single commodity and is in no way additive across commodities.

This definition, which is contained in axiom 4 above, is buttressed by Marx's insistence

⁴⁶¹ When Ricardo said that "If two sacks [of corn] be of the value that one was of before, he [the buyer] ... gets ... double the quantity of what Adam Smith calls value in use, but not double the quantity of value" (Ricardo 1821, p. 281) what he meant was that the buyer gets twice as many sacks, not twice the abstract satisfaction.

that the purpose of exchange is not the maximization of utility. While he concedes that, "So far as regards use-values, it is clear that both parties may gain some advantage" (Marx 1867, p. 155), in general exchange under capitalism involves the seller parting with commodities which have no immediate use-value—"All commodities are non-use-values for their owners, and use-values for their non-owners" (ibid., p. 89). Secondly, the true purpose of capitalist exchange is to increase exchange-value.⁴⁶² With commodities being produced specifically for exchange, "the quantitative proportion in which the articles are exchangeable, becomes dependent on their production itself" (Ibid., p. 91). Marx's dialectics thus gave him a philosophical foundation for the classical propositions that exchange-value, not use-value, determines price, and that exchange involves the transfer of equivalents in value terms, leading to the definition contained in axiom 5 above.

The development of exchange thus gives rise to the concept of a commodity, and simultaneously pushes the use-value of the commodity into the background, while its exchange-value is pushed into the foreground, resulting in axiom 3 above, that "the exchange of commodities is evidently an act characterized by a total abstraction from use-value" (Marx 1867, p. 45). But while the use-value of a commodity is irrelevant to its price, this does not mean that use-value itself is irrelevant to political economy. Instead, the dialectical relationship between use-value and exchange-value allows Marx to explain everything from the source of surplus value itself, to the special status of money in capitalism. The following sections, on the origin of surplus, effective demand, wages, money, and technology, illustrate how the Commodity Axioms provide a logical basis for Post-Keynesian perspectives on these issues.

[Axioms and the Sources of Surplus Value](#)

Marx's confidence that his two sets of axioms were consistent was based upon the ease with which part of the Labor Axioms could be derived from the Commodity Axioms—the proof that surplus value emanated from the exchange between worker and capitalist.

⁴⁶² Marx's analysis allows him to parody the neoclassical perspective on price formation as suiting a capitalist economy which, in effect, has no capitalists. Since neoclassical theory sees the primary role of trade as increasing utility, it focuses solely on the Circuit of Commodities, where commodities are exchanged for money, with which different commodities are purchased (C—M—C). It ignores the dominant aspect of capitalism, the Circuit of Capital, M—C—M+ where exchange is undertaken solely to achieve an increase in exchange-value. In this circuit, "what matters is not the immediate use-value but the exchange value, and, in particular, the expansion of surplus value. This is the driving motive of capitalist production, and it is a pretty conception that—in order to reason away the contradictions of capitalist production—abstracts from its very basis and depicts it as ... aiming at the direct satisfaction of the consumption of the producers." (Marx 1861, p. 495). The circuits are first discussed in Marx 1857, p. 201; see also 1867 Ch. 4. As is well known, this was about the only aspect of Marx's thought for which Keynes expressed admiration (Dillard, 1984, p. 424; Sardonì, p. 81), and the two circuits correspond to Keynes's division of total spending into D1 and D2 (see Davidson, 1994, pp. 23-27, 33-36). The formulation M—C—M was itself shorthand for M—C (L, MP)—P—C'+c'—M+m: money is used to buy inputs to production (labor-power and the means of production), which are then combined in production to produce new commodities of greater value than the inputs, which are sold for more money than the inputs cost. (Marx 1885 Ch. 1, especially p. 41).

To apply his Commodity Axioms to labor-power and the origin of surplus value, Marx had first to identify labor-power's exchange-value and use-value. He argued that the exchange-value of labor-power was its value, the means of subsistence, which could be represented by a bundle of commodities, while its use-value was labor, the ability to perform work.⁴⁶³ The former identification was hardly novel; however, the latter was revolutionary, in two senses. Firstly, in contrast to Smith or Ricardo, Marx gave use-value an active role in political economy. Secondly, he asserted that, under specific circumstances, use-value could be quantitative—though what was being quantified was not abstract satisfaction, as in neoclassical analysis, but the objective function of the commodity in question. In the case of labor-power, its objective function for its capitalist purchaser was to produce commodities for sale. Thus, in the case of this commodity, use-value and exchange-value could both be measured in the terms of the exchange-value of commodities.

He then applied axiom 4 above—that the use-value of a given commodity plays no role in determining its exchange-value—to conclude that these two value magnitudes would be different, and that this difference was the source of surplus value (Marx 1867, p. 188).

In the remainder of *Capital*, Marx proceeded as if this result meant the two sets of axioms were entirely consistent. However, they were not, as is illustrated by a subtle shift in the explanation of why labor generates a surplus. Whereas the Labor Axioms explained surplus on the basis of the unique characteristics of the worker-capitalist exchange—that labor, the service purchased by the capitalist, differed from labor-power, the commodity sold by the worker, and that this difference existed with no other commodity—the Commodity Axioms explained it on the basis of the characteristics that the exchange shared in common with all other commodities—that "the seller of labor power, like the seller of any other commodity, realizes its exchange-value, and parts with its use-value." (Ibid.)

Thus, while the Labor Axioms simultaneously proved that labor was a source of surplus value and the only such source, the Commodity Axioms at best made this a two stage process: firstly, show that the attributes that labor-power shares with all other commodities makes it a source of surplus; secondly, show that despite the fact that the commodity inputs to production had the same characteristics, nevertheless, they were not sources of surplus value.

However, axioms 3 and 7 imply that the use-value of all inputs to production is quantitative, since the only interest the capitalist purchaser has in them is their ability, in the $M-C-M+$ circuit, to produce commodities for sale. Axiom 5 asserts that "Exchange-value and use-value [are] intrinsically incommensurable magnitudes" (Marx, 1867, p. 506). Therefore, the conclusion that a difference can exist, which will generate surplus value, applies to all inputs to production, labor and commodity alike (See Keen 1993a for a detailed discussion of this issue). As Marx himself put it when considering the contribution

⁴⁶³ "The past labor that is embodied in the labor power, and the living labor that it can call into action; the daily cost of maintaining it, and its daily expenditure in work, are two totally different things. The former determines the exchange-value of the labor power, the latter is its use-value." Marx 1867, p. 188.

of machinery, "the use-value of the machine [is] significantly greater than its value; i.e. that its devaluation in the service of production is not proportional to its increasing effect on production." (Marx 1857, p. 383. Emphasis added).

The Commodity Axioms thus lead to the conclusion that surplus can be generated by all inputs to production, thus supporting the Neo-Ricardian and Post-Keynesian approaches to production, and contradicting conventional Labor Theory of Value Marxism's insistence that labor is the only such source. Marx's attempt to avoid this conclusion in *Capital* was a logical failure, which nonetheless succeeded in convincing a century of Marxists (and their critics), chiefly by obscuring his Commodity Axioms, to leave only the Labor Axioms as his apparent legacy to economics (the historiography of this is covered in Keen 1993a and 1993b). Twentieth century Marxism thus developed—and foundered—on the basis of Marx's Labor Axioms.

Effective Demand—The Realization Problem and the Rejection of Say's Law

One of the defining features of Post-Keynesian analysis is the proposition that, under conditions of laissez-faire capitalism, effective demand can be insufficient to provide employment to all those who wish to work, in contrast to the neoclassical catechism that laissez-faire capitalism will necessarily lead to full employment. While it is well known that Marx also considered questions of effective demand and rejected Say's Law, conventional Marxian economics, which is based on the Labor Axioms, has in contrast traditionally focused on long term crises in the generation of surplus, driven by irreversible forces innate to capitalism,⁴⁶⁴ and it has even been argued that the insufficiency of effective demand is incompatible with Marx's basic schema (Sardoni 1987, p. 59).

No such criticism can be leveled at Marx's Commodity Axioms. In the distinctly monetary view of capitalism which emanates from them, the production of a surplus is only half the problem. The surplus generated by production must be realized—it must be converted into money—and for this to happen, the products leave the Circuit of Money Capital, where exchange-value is the dominant aspect of the commodity, and enter the Circuit of Commodity Capital, where use-value is the dominant aspect (axiom 7).⁴⁶⁵

Marx details three "barriers" which restrict the "general tendency of capital" (Marx 1857, p. 416) to expand incessantly, leading to crises and overproduction. At the level of the "entirely superficial" (Ibid., p. 404), the commodity must fulfill a need: "Its first barrier, then is consumption itself—the need for it..."⁴⁶⁶ At the market level, exchange-value will

⁴⁶⁴ The driving force here has been the postulate of a tendency for the rate of profit to fall (TRPF), which itself is derived from the LTV. However, Khalil 1994 makes the point that, even assuming that the LTV is correct, there is nothing intrinsic to capitalism about the TRPF: if the tendency exists, then it should afflict socialism as much as capitalism.

⁴⁶⁵ Marx's discussion of this issue is limited, being largely confined to the Grundrisse, Notebook IV pp. 404-24, Notebook VI pp. 678-80, "Capital as Fructiferous" in Notebook VII, pp. 745-60, and Ch. 15 of *Capital* Volume III. Groll (1980) gives an excellent survey of this material.

⁴⁶⁶ The section omitted here is an interesting predecessor of the Clower-Leijonhufvud interpretation of Keynes: "(Given the present presuppositions, there is no basis whatever for speaking of ineffective, non-

be exactly realized only if the mass of any one commodity produced equals total demand for the product, hence "as use-value, the product contains a barrier ... which, however, is measured not by the need of the producers but by the total need of all those engaged in exchange" (Ibid., p. 405). At the level of the economy, and in a setting of expanded reproduction, the new value created must be met by a matching expansion of aggregate demand, "since ... capital has created a new value in the production process, it seems indeed as if no equivalent were available for it... As new value and as value as such, however, it seems to encounter a barrier in the magnitude of available equivalents, primarily money... The surplus value now requires a surplus equivalent" (Ibid., p. 405).

This last insight is the foundation of Marx's critique of Say's Law. The argument that general overproduction is impossible is based upon the Circuit of Commodities, C—M—C, where money is only an intermediary, where no value is created, and where, since equivalents are exchanged, the sum of value supplied equals the sum of value demanded. However, crises of overproduction emanate from the Circuit of Capital, where the accumulation of money is the object, where new value is created, and where the sum of value supplied exceeds the sum of value demanded—though here demand, the purchase of labor and commodity inputs to production, occurs before supply:

"The capitalist throws less value in the form of money into the circulation than he draws out of it... Since he functions ... as an industrial capitalist, his supply of commodity-value is always greater than his demand for it. If his supply and demand in this respect covered each other it would mean that his capital had not produced any surplus-value... His aim is not to equalize his supply and demand, but to make the inequality between them ... as great as possible." (Marx 1885, pp. 120-121)

Thus Say's Law is invalid in a dynamic economy with accumulation. Should the expansion in aggregate demand, or the availability of credit, be insufficient to realize the value contained in the commodities capitalists supply, overproduction will occur, capitalist expectations of profit will not be fulfilled, their purchases of labor-power and commodities will be curtailed, accumulation will falter, and a slump will eventuate from the insufficiency of aggregate demand.

Wages and Value

Post-Keynesian analysis portrays the wage as primarily a monetary phenomenon, whose level is determined by struggles in the labor market. Marx's Labor Axioms portray the wage as being "on average equal to the 'value of labor-power'" (Green 1991, p. 199),⁴⁶⁷ which is set by the subsistence requirements for reproduction of the labor force (augmented by social and historical norms relevant to each society; Marx 1867, pp. 167-168), and thus the

paying needs; i.e., a need which does not itself possess a commodity or money to give in exchange.)" (Marx 1857, p. 404)

⁴⁶⁷ However, Ronald Meek long ago pronounced himself "unconvinced by attempts of some modern Marxists to ... [define] ... 'the value of labor-power' so that it becomes equivalent, in effect, to any wage which the workers happen to be getting" (Meek 1973, p. xvii.)

wage is a real phenomenon, determined largely by forces outside the economic system.

Marx's Commodity Axioms, on the other hand, lead to a picture of the wage as monetary and determined in the labor market, as with Post-Keynesian theory. This also leads to the first of several additional axioms; however, whereas axioms 6 and 7 of the Labor Axioms contradict preceding axioms, these additions augment the foundation Commodity set. In keeping with Whitehead's concept of internal relations, the wage relation (and, later, money and new products) are "narrower" contexts than the overall context of the commodity.

The key observation is that the ability to work cannot be properly characterized as a commodity. It is a commodity in the sense that labor-power is bought and sold; but it is also not a commodity in that it is neither produced in factories, nor produced with an eye to a profit. But were it possible to purchase labor-power at its value, then it would in fact be treated as a full commodity, in denial of the aspects which make it more than a commodity. This gives us a reason to presume that, in general, it will take more than just the value of labor-power to hire a worker. There is thus a "dialectic of labor-power", in addition to the dialectic of commodities, which is embodied in the following axiom:

- Labor-power is both a commodity and a non-commodity, giving rise to a dialectic of labor, which determines the wage.⁴⁶⁸

Marx's dialectics thus implies that as a rule labor would be expected to receive more than its value, and the dialectical interpretation of Marx therefore supports the Post-Keynesian approach to wage formation over the conventional Labor Axioms approach. As evidence of this, on the one occasion where Marx considered the dynamics of wage formation, his analysis amounted to a verbal pr—cis of Goodwin's predator-prey model of the trade cycle (Goodwin 1967): a period of rapid accumulation reaches the stage "at which requirements of accumulation begin to surpass the customary supply of labor, and, therefore, a rise of wages takes place" (Marx 1867, p. 575). However, this cannot continue forever, because

"accumulation slackens in consequence of the rise in the price of labor, because the stimulus of gain is blunted. The rate of accumulation lessens; but with its lessening, the primary cause of that lessening vanishes, i.e. the disproportion between capital and exploitable labor power. The mechanism of the process of capitalist production removes the very obstacles that it temporarily creates. The price of labor falls again to a level

⁴⁶⁸ While Marx never explicitly applied his Commodity Axioms to the question of labor-power, it is probable that he would have done so in the intended third book on wage-labor (Oakley 1983, pp. 115-116). However, whenever he did consider the relationship between the wage and the value of labor-power, the term he used was not "average", but "minimum" (Marx 1861, Part I, p. 46; 1846, p. 55; 1861, Part II, p. 223; Meek 1973, pp. ix-x, citing correspondence from Marx to Engels)—in contrast to the practice of his purported followers. In a section of the Grundrisse entitled "The minimum of wages", Marx made it clear that in his complete analysis, the wage would normally exceed the value of labor-power: "For the time being, necessary labor supposed as such; i.e. that the worker always obtains only the minimum of wages. This supposition is necessary, of course, so as to establish the laws of profit in so far as they are not determined by the rise and fall of wages or by the influence of landed property. All these fixed suppositions themselves become fluid in the further course of development." (Marx 1857, p. 817.)

corresponding with the needs of the self-expansion of capital, whether the level be below, the same as, or above the one which was normal before the rise in wages took place... To put it mathematically, the rate of accumulation is the independent, not the dependent variable; the rate of wages the dependent, not the independent variable." (Ibid., pp. 580-581.)

Thus the actual wage is monetary, while the real wage consists of two parts, a minimum payment which is an extra-economic given, and a share of the surplus which is a function of the rate of employment, of accumulation and of population growth.⁴⁶⁹ This dynamic vision of wages formation ensures that the distribution of income will never quite be what capitalists expected it to be when their investment plans were made, adding further to the likelihood of alternating cycles of over and under-production.

Endogenous Money, Expectations, and Capitalism's Two Price Levels

The propositions that money is non-neutral in both the short and long term, and that the money supply is endogenous, distinguish Post-Keynesian economics from all other schools of thought. American monetary Post-Keynesians in particular focus upon the peculiar role of money, liquidity and financial assets as the explanation for capitalism's tendency to experience unemployment equilibrium, or cyclical crises brought on by financial fragility. Davidson emphasizes the peculiar elasticities of production and substitution of money (1981, p. 167; 1994, pp. 94-96) as the reason why an increase in demand for it (occasioned by a rise in uncertainty) will lead to an increase in unemployment, as demand shifts from producible commodities to non-producible money. Moore emphasizes the endogeneity of credit and the essential control that borrowers have over the money supply, while Minsky's "Financial Instability Hypothesis" focuses upon the interplay between endogenous money and assets prices. An essential part of Davidson's and Minsky's analyses is the proposition that there are two price levels in a capitalist economy: one for commodities, based largely on the cost of production, and one for financial assets, based on the cash flows the assets were expected to generate (Minsky 1982 pp. 3-12; Davidson 1994, pp. 56-62; Keen 1995, p. 610).

The analysis of money and credit has long been regarded as one of the weakest links in Marx's theoretical schema (De Brunhoff, 1973 p. xiii), and indeed there is little to differentiate Marx's discussion of money in Capital Volume I from the Quantity Theory of Money. In contrast, insights which are consistent with Post-Keynesian analysis can be derived from Marx's Commodity Axioms, and in addition they introduce the concept of uncertainty. As with labor above, this results in an additional axiom, whose basis, likewise, is the observation that money is both a commodity and a non-commodity. It is a commodity because it is traded, but a non-commodity because it is not produced by means of other commodities, but by agreement between lender and borrower.

⁴⁶⁹ This two-part treatment of wages also accords with Sraffa's preferred approach: "In view of this double character of the wage it would be appropriate, when we come to consider the division of the surplus between capitalists and workers, to separate the two component parts of the wage and regard only the 'surplus' part as variable." (Sraffa 1960, p. 9)

As has already been shown, the Commodity Axioms provide a rationale for basing the price of commodities on their cost of production. The same logic cannot be applied to money, however, since the "cost of production" of money is effectively zero. There thus arises the dialectic that, while credit money is essential to capitalism, it cannot be priced in the same fashion as all other commodities. Instead, credit money is the one commodity whose exchange-value is set by its use-value, which is expressed in the axiom:

- Money is both a commodity and a non-commodity, giving rise to the dialectic of money, that its exchange-value is set by its use-value.

It is possible to find this proposition in Marx's writings. For example, when considering how the rate of interest is set, Marx says:

"What, now, does the industrial capitalist pay, and what is, therefore, the price of the loaned capital?... What the buyer of an ordinary commodity, buys is its use-value; what he pays for is its value. What the borrower of money buys is likewise its use-value as capital; but what does he pay for? Surely not its price, or value, as in the case of ordinary commodities." (Marx 1894, p. 352.)

Thus, rather than the rate of interest being set by the cost involved in issuing a loan, it is set by the use-value of the loan itself, and "Its use-value, however, lies in producing profit" (Ibid., p. 355. See also Marx 1861, Part III., pp. 457-58).

Marx extended this result to assets—factories, mines, etc.—which are purchased or hired in order to generate a stream of income (Ibid., p. 458-459; 1861, Part II, p. 249; 1894, pp. 353-356). For example, Marx chastised Ricardo for explaining the price of minerals in situ on the basis of their "value", when no labor has gone into their production. Marx points out that they therefore contain no value—though they have obvious potential quantitative use-value, determined by the expected sale price of the estimated quantity of ore. Thus, if mining rights and the like could be purchased, like commodities, for their cost of production, they would be free. Hence as with loaned capital, the exchange-value of assets is determined not by their costs of production, but by their perceived use-value—that of being a potential source of exchange-value.⁴⁷⁰

Consequently, asset prices are determined by expectations of profit, while commodity prices are determined by the cost of production, so that there are two independent price levels in capitalism. The former will be far more volatile than the latter, and debt will be incurred to purchase them. The Post-Keynesian emphasis upon expectations and uncertainty in general, and the fundamentals of Minsky's Financial Instability Hypothesis

⁴⁷⁰ "Ricardo never uses the word value for utility or usefulness or "value in use". Does he therefore mean to say that the "compensation" is paid to the owner of the quarries and coalmines for the "value" the coal and stone have before they are removed from the quarry and the mine—in their original state? Then he invalidates his entire doctrine of value. Or does value mean here, as it must do, the possible use-value and hence the prospective exchange-value of coal or stone?" (Marx 1861 Part II, p. 249)

in particular, thus flow easily from Marx's Commodity Axioms.⁴⁷¹

Commodities and Non-commodities

The Commodity Axioms need one further element to be complete. The observation that both labor and money are simultaneously commodities and non-commodities points out that, strictly speaking, the term "commodity" applies to products which are produced for sale, and which are themselves involved in the production of other commodities.

Ricardo was more precise on this point than Marx. Very early on in the *Principles*, he states that "There are some commodities, the value of which is determined by their scarcity alone... rare statues ... wines of a peculiar quality ... are all of this description. Their value is wholly independent of the quantity of labor originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them." (Ricardo 1821, p. 12)

While Ricardo's examples are of little practical moment, this argument has much wider import. In particular, newly developed products fall between the type of commodities to which Marx's analysis applies, and those in the category excepted by Ricardo. This suggests that the products of technological development—which will in time become commodities as they are integrated into the system of reproduction—are liable to have their initial prices set by forces in addition to their costs of production. Perceived utility is one such additional force, though the evolutionary nature of technological progress suggests that the prices of established commodities with which the new product competes, and the threat of competitive products from rival companies, are likely to put bounds on this. Thus the price of a newly developed product is likely to be above its exchange-value, but to be driven towards this over time by the forces of competition and commodification. This suggests a final axiom:

- Products which are not part of the system of reproduction of products are not truly commodities, and hence not fully bound by the dialectic of commodities.

This also suggests an axis along which the most extreme versions of non-neoclassical economic thought can be related. At one end, Neo-Ricardian economics presumes that all products are commodities, and bases the exchange-values of all products solely on the technical conditions of production, and the distribution of income between wages and profits. Austrian economics occupies the other pole: while it shares with Marx a dialectical vision of capitalism (Sciabarra, 1995, pp. 11-29), it makes the innovative aspects of capitalism the center of its dialectic, and proposes an entirely subjective theory of value—which from the perspective of Marx's dialectic of the commodity, involves treating all products as non-commodities.

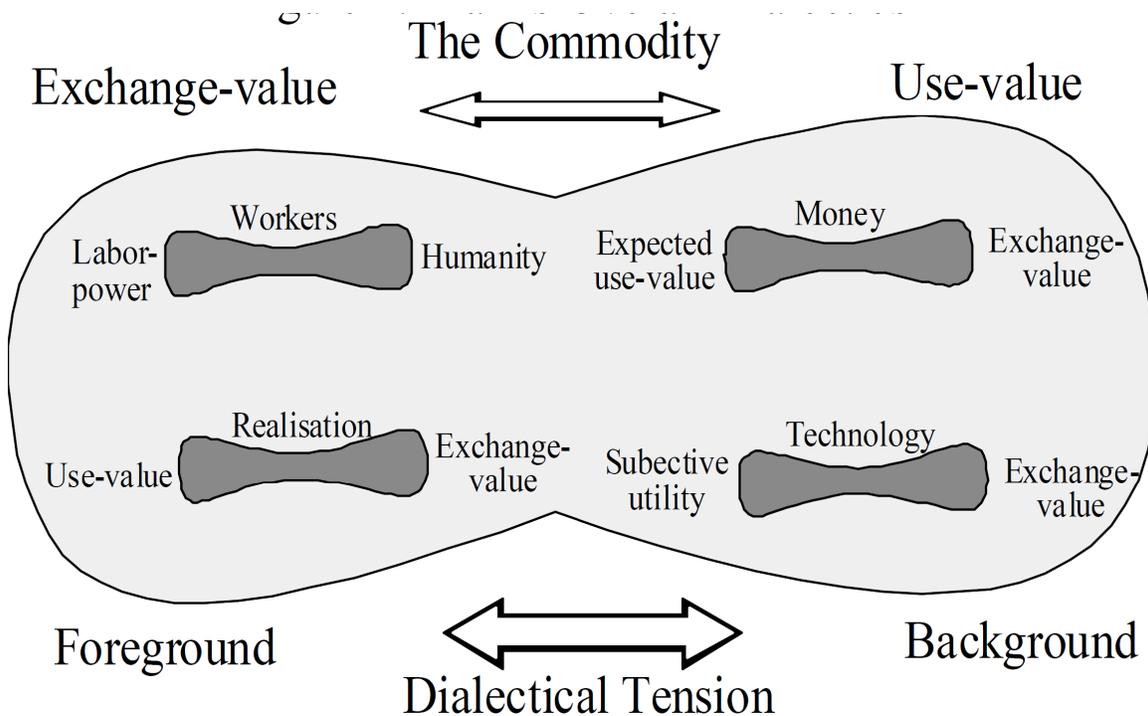
⁴⁷¹ Marx's discussion of the trade cycle, while largely historical in character, is also consistent both with an endogenous theory of credit and with Minsky's hypothesis (Marx 1894, pp. 479-545). In particular, Marx acknowledges that credit can expand at a much different rate than the money supply (Ibid., p. 499)

Conclusion

Post-Keynesian economics is thus not as eclectic as both its major proponents and opponents believe; it has merely lacked a clearly articulated theory of value, and an axiomatic basis derived from that theory of value. Both of these exist in Marx, and can be adopted by Post-Keynesians without fear of contamination by the labor theory of value, and without abandoning any of the valued aspects of Keynes's philosophical approach to economics.

The benefits to Post-Keynesianism from adopting Marx's neglected foundations are many. A sense of methodological consistency can be gained; disparate insights concerning the role of uncertainty, expectations, money, and the labor market, can be collated into a consistent perspective on capitalism—see Figure 2, which visually summarises Marx's overall dialectics; and most importantly, as Caldwell (1989, pp. 56-57), Pasinetti (1986, p. 427) and Backhouse (1988, pp. 39-40) emphasize, a consistent alternative paradigm is needed if Post-Keynesianism is ever to develop into a full rival to neoclassical economics.

Figure 2: Marx's overall dialectics



An additional major benefit that Post-Keynesian economics would gain from taking up this abandoned cudgel is pedagogic. With Post-Keynesian economics defined predominantly by its opposition to neoclassical analysis, students are unable to comprehend heterodox economics until they learn what it is not. Even then, realizing why an alternative exists, let alone is desirable, requires understanding the shortcomings of neoclassical analysis to a significant degree of complexity. However, using Marx's Commodity Axioms, Post-Keynesian economics can be favorably distinguished from its neoclassical rival at the very

beginning of a student's exposure to economics.

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