

Chapter Four

THE ERROR IN THE MARXIAN SYSTEM —ITS ORIGIN AND RAMIFICATIONS

Section I

THE evidence that an author has contradicted himself may be a necessary stage, but it cannot be the ultimate aim of a fruitful and well-directed criticism. To be aware that there is a defect in a system, which may possibly be accidental only and peculiar to the author, requires a comparatively low degree of critical intelligence. A firmly rooted system can only be effectually overthrown by discovering with absolute precision the point at which the error made its way into the system and the manner in which it spread and branched itself out. As opponents we ought to study the beginning, the development, and the final issue of the error which culminates in self-contradiction as thoroughly, I might almost say as sympathetically, as we would study the connection of a system with which we were in agreement.

Owing to many peculiar circumstances the question of self-contradiction has, in the case of Marx, gained a more than ordinary importance, and consequently I have devoted a con-

siderable space to it. But in dealing with a thinker so important and influential as Marx it is incumbent upon us to apply ourselves to the second and, in this case I think, the actually more fruitful and instructive part of the criticism.

We will begin with a question which will carry us straight to the main point: in what way did Marx arrive at the fundamental proposition of his teaching—the proposition that all value depends solely upon incorporated quantities of labor?

That this proposition is not a self-evident axiom, needing no proof, is beyond doubt. Value and effort, as I have stated at length in another place, are not ideas so intimately connected that one is forced immediately to adopt the view that effort is the basis of value. "That I have toiled over a thing is one fact, that the thing is worth the toil is another and a different fact, and that the two facts do not always go hand in hand is far too firmly established by experience to admit of any doubt. It is proved by all the labor which is daily wasted on valueless results, owing either to want of technical skill, or to bad speculation, or to simple misfortune; and not less by each of the numerous cases in which a very little toil has a result of very great value."¹

When therefore it is affirmed that a necessary and natural correspondence between value and effort exists in any quarter, it behooves us to give ourselves and our readers some grounds in support of such a statement.

Now Marx himself advances proofs of it in his system; but I think I shall be able to convince my readers that from the outset his line of argument is unnatural and not suited to the character of the problem; and further that the evidence which Marx advances in his system is clearly not the same as that by means of which he himself arrives at his convictions, but was thought out subsequently as an artificial support for an opinion which was previously derived from other sources; and finally—

¹ *Capital and Interest*, p. 377.

and this is the most decisive point—that the reasoning is full of the most obvious faults of logic and method which deprive it of all cogency.

Let us examine this more closely.

The fundamental proposition which Marx puts before his readers is that the exchange value of commodities—for his analysis is directed only to this, not to value in use—finds its origin and its measure in the quantity of labor incorporated in the commodities.

Now it is certain that the exchange values, that is to say the prices of the commodities as well as the quantities of labor which are necessary for their reproduction, are real, external quantities, which on the whole it is quite possible to determine empirically. Obviously, therefore, Marx ought to have turned to experience for the proof of a proposition the correctness or incorrectness of which must be manifested in the facts of experience; or in other words, he should have given a purely empirical proof in support of a proposition adapted to a purely empirical proof. This, however, Marx does not do. And one cannot even say that he heedlessly passes by this possible and certainly proper source of knowledge and conviction. The reasoning of the third volume proves that he was quite aware of the nature of the empirical facts, and that they were opposed to his proposition. He knew that the prices of commodities were not in proportion to the amount of incorporated labor, but to the total cost of production, which comprises other elements besides. He did not therefore accidentally overlook this, the most natural proof of his proposition, but turned away from it with the full consciousness that upon this road no issue favorable to his theory could be obtained.

But there is yet another and perfectly natural way of testing and proving such propositions: the psychological. We can by a combination of induction and deduction, much used in our science, investigate the motives which direct people in carrying on the business of exchange and in determining exchange prices

on the one hand, and on the other hand which guide them in their co-operation in production; and from the nature of these motives a typical mode of action may be inferred through which, among other things, it is conceivable that a connection should result between the regularly demanded and accepted prices and the quantity of work necessary for the production of the commodities. This method has often been followed with the best results in exactly similar questions—for instance, the usual justification of the law of supply and demand and of the law of costs of production, and the explanation of ground rents, rest upon it. And Marx himself, in a general way at least, has often made use of it; but precisely in dealing with his fundamental proposition he avoids it. Although, obviously, the affirmed external connection between exchange relations and quantities of work could only be fully understood by the discovery of the psychological links which connect the two, he foregoes all explanation of these internal connections. He even once says, incidentally, that “the deeper analysis” of the two social forces, “demand and supply”—which would have led to this internal connection—“is not apposite here” (III, 223), where the “here” refers only to a digression on the influence of supply and demand on the formation of prices. In reality, however, nowhere in the whole Marxian system is a really “deep” and thorough analysis attempted; and the absence of this analysis is most noticeable where he is preparing the ground for his most important leading idea.

But here again we notice something strange. Marx does not, as might have been expected, pass over this second possible and natural method of investigation with an easy carelessness. He studiously avoids it, and with a full consciousness of what the results of following it would be, and that they would not be favorable to his thesis. In the third volume, for instance, he actually brings forward, under their roughly collective name of “competition,” those motives operative in production and

exchange, the "deeper analysis" of which he foregoes here and elsewhere, and demonstrates that these motives do not in reality lead to an adjustment of the prices to the quantities of labor incorporated in the commodities, but that, on the contrary, they force them away from this level to a level which implies at least one other co-ordinating factor. Indeed it is competition which, according to Marx, leads to the formation of the celebrated average rate of profit and to the "transfer" of pure labor values into prices of production, which differ from them and contain a portion of average profit.

Now Marx, instead of proving his thesis from experience or from its operant motives—that is, empirically or psychologically—prefers another, and for such a subject somewhat singular line of evidence—the method of a purely logical proof, a dialectic deduction from the very nature of exchange.

Marx had found in old Aristotle the idea that "exchange cannot exist without equality, and equality cannot exist without commensurability" (I, 68). Starting with this idea he expands it. He conceives the exchange of two commodities under the form of an equation, and from this infers that "a common factor of the same amount" must exist in the things exchanged and thereby equated, and then proceeds to search for this common factor to which the two equated things must as exchange values be "reducible" (I, 43).

I should like to remark, in passing, that the first assumption, according to which an "equality" must be manifested in the exchange of two things, appears to me to be very old-fashioned, which would not, however, matter much were it not also very unrealistic. In plain words, it seems to me to be a wrong idea. Where equality and exact equilibrium obtain, no change is likely to occur to disturb the balance. When, therefore, in the case of exchange the matter terminates with a change of ownership of the commodities, it points rather to the existence of some inequality or preponderance which produces the alteration. When composite bodies are brought into close contact with each other

new chemical combinations are produced by some of the constituent elements of one body uniting with those of another body, not because they possess an exactly equal degree of chemical affinity, but because they have a stronger affinity with each other than with the other elements of the bodies to which they originally belonged. And as a matter of fact modern political economists agree that the old scholastico-theological theory of "equivalence" in the commodities to be exchanged is untenable. I will not, however, dwell any longer on this point, but will proceed to the critical investigation of the logical and systematic processes of distillation by means of which Marx obtains the sought-for "common factor" in labor.

It is these processes which appear to me to constitute, as I have before said, the most vulnerable point in the Marxian theory. They exhibit as many cardinal errors as there are points in the arguments—of which there are not a few—and they bear evident traces of having been a subtle and artificial afterthought contrived to make a preconceived opinion seem the natural outcome of a prolonged investigation.

Marx searches for the "common factor" which is the characteristic of exchange value in the following way: He passes in review 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 the product of labor. This, therefore, must be the sought-for common property.

This line of procedure is somewhat singular, but not in itself objectionable. It strikes one as strange that instead of submitting the supposed characteristic property to a positive test—as would have been done if either of the other methods studiously avoided by Marx had been employed—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. This method can always lead to the desired end if attention and thoroughness are used—that is to say, if

extreme care is taken that everything that ought to be included is actually passed through the logical sieve and that no mistake has been made in leaving anything out.

But how does Marx proceed?

From the beginning he only puts into the sieve those exchangeable things which contain the property which he desires finally to sift out as "the common factor," and he leaves all the others outside. He acts as one who urgently desiring to bring a white ball out of an urn takes care to secure this result by putting in white balls only. That is to say he limits from the outset the field of his search for the substance of the exchange value to "commodities," and in doing so he forms a conception with a meaning narrower than the conception of "goods" (though he does not clearly define it), and limits it to products of labor as against gifts of nature. Now it stands to reason that if exchange really means an equalization, which assumes the existence of a "common factor of the same amount," this common factor must be sought and found in every species of goods which is brought into exchange, not only in products of labor but also in gifts of nature, such as the soil, wood in trees, water power, coal beds, stone quarries, petroleum reserves, mineral waters, gold mines, etc.¹ To exclude the exchangeable goods which are not products of labor in the search for the common factor which lies at the root of exchange value is, under the circumstances, a great error of method. It is just as though a natural philosopher, desiring to discover a property common to all bodies—weight, for instance—were to sift the properties of a single group of bodies—transparent bodies, for instance—and after passing in review all the properties common to transparent bodies were to declare that transparency must be the cause of

¹ Karl Knies makes the following pertinent objection against Marx: "There is no reason apparent in Marx's statement why the equation, 1 quarter wheat = *a* cwts. wild-grown wood = *b* acres of virgin soil = *c* acres of natural pasture-land, should not be as good as the equation, 1 quarter wheat = *a* cwts. of forest-grown wood" (*Das Geld*, 1st edition, p. 121, 2nd edition, p. 157).

weight, for the sole reason that he could demonstrate that it could not be caused by any of the other properties.

The exclusion of the gifts of nature (which would never have entered the head of Aristotle, the father of the idea of equality in exchange) is the less to be justified because many natural gifts, such as the soil, are among the most important objects of property and commerce, and also because it is impossible to affirm that in nature's gifts exchange values are always established arbitrarily and by accident. On the one hand, there are such things as accidental prices among products of labor; and on the other hand the prices in the case of nature's gifts are frequently shown to be distinctly related to antecedent conditions or determining motives. For instance, that the sale price of land is a multiple of its rent calculated on an interest usual in the country of sale is as well-known a fact as that the wood in a tree, or the coal in a pit, brings a higher or lower price according to differences of quality or of distance from market, and not by mere accident.

Marx also takes care to avoid mentioning or explaining the fact that he excludes from his investigation a part of exchangeable goods. In this case, as in many others, he manages to glide with dialectic skill over the difficult points of his argument. He omits to call his readers' attention to the fact that his idea of "commodities" is narrower than that of exchangeable goods as a whole. He very cleverly prepares us for the acceptance of the subsequent limitation of the investigation to commodities by placing at the beginning of his book the apparently harmless general phrase that "the wealth of the society in which a capitalist system of production is dominant appears as an immense *collection of commodities*." This proposition is quite wrong if we take the term "commodity" to mean products of labor, 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. The ingenuous reader easily overlooks this inaccuracy, however, for of course he does not know that later Marx will give a much more restricted meaning to the term "commodity."

Nor is this made clear in what immediately follows. On the contrary, in the first paragraphs of the first chapter we read in turns of a "thing," a "value in use," a "good," and a "commodity," without any clear distinction being made between the last and the three former. "The usefulness of a *thing*," it says on page 42, "makes it a *value in use*"; "the commodity . . . is a *value in use* or *good*." On page 43 we read, "Exchange value appears . . . as the quantitative proportion . . . in which *values in use* of one kind exchange with *values in use* of another kind." And here let it be noticed that it is just the value in use = good which is still directly indicated as the main factor of the exchange phenomenon. And with the phrase "Let us look into the matter more closely," which surely cannot be meant to prepare us for a leap into another and a narrower field of research, Marx continues, "a single *commodity*, a quarter of wheat, for instance, exchanges in the most varying proportions with other *articles*." And "Let us further take two *commodities*," etc. In the same paragraph the term "things" occurs again, and indeed with the application which is most important for the problem, namely, "that a common factor of equal amount exists in two different *things*" (which are made equal to each other in exchange).

On the next page (p. 44), however, Marx directs his search for the "common factor" only to the "exchange value of *commodities*," without hinting, even in the faintest whisper, that he has thereby limited the field of research to a part only of the things possessing exchange value.¹ And immediately, on the next

¹ In a quotation from Barbon, in this same paragraph, the difference between commodities and things is again effaced: "One sort of *wares* are as good as another, if the value be equal. There is no difference or distinction in *things* of equal value."

page (p. 45), the limitation is again abandoned and the results just obtained in the narrower area are applied to the wider sphere of values in use, or goods. "A *value in use*, or a *good*, has therefore only a value because abstract human labor is stored up or materialized in it."

If Marx had not confined his research, at the decisive point, to products of labor, but had sought for the common factor in the exchangeable gifts of nature as well, it would have become obvious that work cannot be the common factor. If he had carried out this limitation quite clearly and openly this gross fallacy of method would inevitably have struck both himself and his readers; and they would have been forced to laugh at the naïve juggle by means of which the property of being a product of labor has been successfully distilled out as the common property of a group from which all exchangeable things which naturally belong to it, and which are not the products of labor, have been first of all eliminated. The trick could only have been performed, as Marx performed it, by gliding unnoticed over the knotty point with a light and quick dialectic. But while I express my sincere admiration of the skill with which Marx managed to present so faulty a mode of procedure in so specious a form, I can of course only maintain that the proceeding itself is altogether erroneous.

But we will proceed. By means of the artifice just described Marx has merely succeeded in convincing us that labor can in fact enter into the competition. And it was only by the artificial narrowing of the sphere that it could even have become *one* "common" property of this narrow sphere. But by its side other properties could claim to be as common. How now is the exclusion of these other competitors effected? It is effected by two arguments, each of a few words only, but which contain one of the most serious of logical fallacies.

In the first of these Marx excludes all "geometrical, physical, chemical, or other natural properties of the commodities," for

“their physical properties only come into consideration in so far as they make the commodities useful—make them values in use, therefore. *On the other hand, the exchange relation of commodities evidently involves our disregarding their values in use*”; because “*within this relation [the exchange relation] one value in use is worth exactly as much as every other, provided only it is present in proper proportions*” (I, 44).

In making clear what this argument involves I may be permitted to quote from my *Capital and Interest* (p. 381):

“What would Marx have said to the following argument? In an opera company there are three celebrated singers, a tenor, a bass, and a baritone, each with a salary of £2,000. Someone asks, ‘What is the common circumstance on account of which their salaries are made equal?’ And I answer, ‘In the question of salary one good voice counts for just as much as any other, a good tenor for as much as a good bass or a good baritone, provided only it is to be had in proper proportion. Consequently in the question of salary the good voice is evidently disregarded, and the good voice cannot be the common cause of the high salary.’ That this argument is false, is clear. But it is just as clear that Marx’s syllogism, from which this is copied, is not an atom more correct. Both commit the same fallacy. They confuse abstraction from the genus, and abstraction from the specific forms in which the genus manifests itself. In our illustration the circumstance which is of no account as regards the question of salary is evidently only the special form in which the good voice appears, whether as tenor, bass, or baritone, and by no means the good voice as such. And just so is it with the exchange relation of commodities. The special forms under which the values in use of the commodities may appear, whether they serve for food, shelter, clothing, etc., is of course disregarded, but the value in use of the commodity as such is never disregarded. Marx might have seen that we do not absolutely disregard value in use, from the fact that there can be no

exchange value where there is no value in use—a fact which Marx is himself repeatedly forced to admit.”¹

The second step in the argument is still worse: “If the use value of commodities be disregarded”—these are Marx’s words—“there remains in them *only one other property, that of being products of labor.*” Is it so? I ask today as I asked twelve years ago: is there only one other property? Is not the property of being scarce in proportion to demand also common to all exchangeable goods? Or that they are the subjects of demand and supply? Or that they are appropriated? Or that they are natural products? For that they are products of nature, just as they are products of labor, no one asserts more plainly than Marx himself, when he declares in one place that “commodities are combinations of two elements, natural material and labor.” Or is not the property that they cause expense to their producers—a property to which Marx draws attention in the third volume—common to exchangeable goods?

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 labor? For in support of this latter

¹ For example, p. 48: “Lastly, nothing can be a value without also being an object of use. If it is useless, the labor contained in it is also useless; it does not count as labor [*sic!*], and therefore creates no value.” Knies has already drawn attention to the logical fallacy animadverted upon in the text (see *Das Geld*, Berlin, 1873, pp. 123 ff.; 2nd edition, pp. 160 ff.). Adler (*Grundlagen der Karl Marx’schen Kritik*, Tübingen, 1887, pp. 211 ff.) has strangely misunderstood my argument when he contends against me that good voices are not commodities in the Marxian sense. It did not concern me at all whether “good voices” could be classed as economic goods under the Marxian law of value or not. It only concerned me to present an argument of a logical syllogism which showed the same fallacy as that of Marx. I might for this purpose just as well have chosen an example which was in no way related to the domain of economics. I might, for example, just as well have shown that according to Marx’s logic the common factor of *variously colored* bodies might consist in heaven knows what, but not in the blending of various colors. For any *one* combination of colors—for example, white, blue, yellow, black, violet—is as regards variety worth just as much as any other combination, say green, red, orange, sky-blue, etc., if only it is present “in proper proportion”; we therefore apparently abstract from the color and combination of colors!

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. But does not this negative argument apply equally to all the other common properties overlooked by Marx? And this is not all. On page 44, in which Marx has abstracted from the influence of the value in use on exchange value by arguing that any one value in use is worth as much as any other if only it is present in proper proportion, he writes as follows about products of labor: "But even as the product of labor they have already changed in our hand. For if we abstract from a commodity its value in use, we at the same time take from it the material constituents and forms which give it a value in use. It is no longer a table, or a house, or yarn, or any other useful thing. All its physical qualities have disappeared. *Nor is it any longer the product of the labor of the carpenter, or the mason, or the spinner, or of any other particular productive industry.* With the useful character of the labor products there disappears the useful character of the labor embodied in them, and there vanish also the different concrete forms of those labors. *They are no longer distinguished from each other, but are all reduced to identical human labor—abstract human labor.*"

Is it possible to state more clearly or more emphatically that for an exchange relation not only any one value in use, but also any one kind of labor or product of labor is worth exactly as much as any other, if only it is present in proper proportion? Or, in other words, that exactly the same evidence on which Marx formulated his verdict of exclusion against the value in use holds good with regard to labor? Labor and value in use have a qualitative side and a quantitative side. As the value in use is different qualitatively as table, house, or yarn, so is labor as carpentry, masonry, or spinning. And just as one can compare different kinds of labor according to their quantity, so one can compare values in use of different kinds according to the amount of the value in use. It is quite impossible to

understand why the very same evidence should result in the one competitor being excluded and in the other getting the crown and the prize. 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 labor; and then the reasoning which resulted in the crowning of labor 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." I think it can be maintained seriously, not in jest, that, if the subjects of the two paragraphs on page 44 were transposed (in the first of which the influence of value in use is thought away, and in the second labor is shown to be the sought-for common factor), the seeming justness of the reasoning would not be affected, that "labor" and "products of labor" could be substituted everywhere for "value in use" in the otherwise unaltered structure of the first paragraph, and that in the structure of the second paragraph "value in use" could be substituted throughout for "labor."

Of such a nature are the reasoning and the method employed by Marx in introducing into his system his fundamental proposition that labor is the sole basis of value. In my opinion it is quite impossible that this dialectical hocus-pocus constituted the ground and source of Marx's own convictions. It would have been impossible for a thinker such as he was (and I look upon him as an intellectual force of the very highest order) to have followed such tortuous and unnatural methods had he been engaged, with a free and open mind, in really investigating the actual connections of things, and in forming his own conclusions with regard to them; it would have been impossible for him to fall successively by mere accident into all the errors of thought and method which I have described, and to arrive at the conclusion that labor is the sole source of value as the natural outgrowth, not the desired and predetermined result, of such a mode of inquiry.

I think the case was really different. That Marx was truly and honestly convinced of the truth of his thesis I do not doubt. But the grounds of his conviction are not those which he gives in his system. They were in reality opinions rather than thought-out conclusions. 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. They had only postulated it from certain general confused impressions. But they explicitly contradicted it when they examined things more closely and in quarters where a closer examination could not be avoided. Smith, in the same way as Marx in his third volume, taught that in a developed economic system values and prices gravitate towards a level of costs which besides labor comprises an average profit of capital. And Ricardo, too, in the celebrated fourth section of the chapter "On Value," clearly and definitely stated that by the side of labor, mediate or immediate, the amount of capital invested and the duration of the investment exercise a determining influence on the value of the goods. In order to maintain without obvious contradiction their cherished philosophical principle that labor is the "true" source of value, they were obliged to beat a retreat to mythical times and places in which capitalists and landed proprietors did not exist. There they could maintain it without contradiction, for there was nothing to restrain them. Experience, which does not support the theory, was not there to refute them. Nor were they restrained by a scientific, psychological analysis, for like Marx they avoided such an analysis. They did not seek to prove—they postulated, as a "natural" state, an idyllic state of things where labor and value were one.¹

¹ The position which is taken by Smith and Ricardo towards the doctrine that value is wholly labor I have discussed exhaustively in the *Geschichte und Kritik*, pp. 428 ff. and have there also shown especially that no trace of a proof of this thesis is to be found in the so-called classical writers. Compare also Knies, *Der Kredit*, 2nd section, pp. 60 ff.

It was to tendencies and views of this kind, which had acquired from Smith and Ricardo a great but not undisputed authority, that Marx became heir, and as an ardent socialist he willingly believed in them. It is not surprising that he did not take a more skeptical attitude with regard to a view which was so well adapted to support his economic theory of the world than did Ricardo, to whom it must have gone sorely against the grain. It is not surprising, too, that he did not allow those views of the classical writers which were against him to excite any critical doubts in his own mind on the doctrine that value is wholly labor, but considered that they were only attempts on their part to escape in an indirect way from the unpleasant consequences of an inconvenient truth. In short, it is not surprising that the same material on which the classical writers had grounded their half-confused, half-contradictory, and wholly unproved opinions should have served Marx as foundation for the same assumption, believed in unconditionally and with earnest conviction. For himself he needed no further evidence. Only for his system he needed a formal proof.

It is clear that he could not rely simply on the classical writers for this, as they had not proved anything; and we also know that he could not appeal to experience, or attempt an economic-psychological proof, for these methods would have straightway 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, to give a suitable systematic dress to a truth which, according to his deepest convictions, was already substantially proved. Of that I cannot judge, neither is it now possible for any one else to do so. 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.

Section II

THIS WRONG thesis he now weaves into his system with admirable tactical skill. Of this we have a brilliant example in the next step he takes. Although he has carefully steered clear of the testimony of experience and has evolved his doctrine entirely "out of the depths of his mind," yet the wish to apply the test of experience cannot be altogether suppressed. If Marx himself would not do it, his readers would certainly do it on their own account. What does he do? He divides and distinguishes. At one point the disagreement between his doctrine and experience is flagrant. Taking the bull by the horns he himself seizes upon this point. He had stated as a consequence of his fundamental principle that the value of different commodities is in proportion to the working time necessary to their production (I, 46). Now it is obvious even to the casual observer that this proposition cannot maintain itself in the face of certain facts. The day's product of a sculptor, of a cabinet-maker, of a violin-maker, of an engineer, etc., certainly does not contain an equal value but a much higher value than the day's product of a common workman or factory hand, although in both the same amount of working time is "embodied." Marx himself, with a masterly dialectic, now brings these facts up for discussion. In considering them he seeks to suggest that they do not contain a contradiction of his fundamental principle,

but are only a slightly different reading of it which still comes within the limits of the rule, and that all that is needed is some explanation or more exact definition of the latter. That is to say he declares that labor in the sense of his proposition means the "expenditure of simple [unskilled] labor power, an average of which is possessed in his physical organism by every ordinary man, without special cultivation"; or in other words "*simple average labor*" (I, 51, and also previously in I, 46).

"Skilled labor," he continues, "*counts only as concentrated or rather multiplied unskilled labor*, so that a small quantity of skilled labor is equal to a larger quantity of unskilled labor. *That this reduction is constantly made experience shows. A commodity may be the product of the most highly skilled labor, but its value makes it equal to the product of unskilled labor, and represents therefore only a definite quantity of unskilled labor.* The different proportions in which different kinds of labor are reduced to unskilled labor as their unit of measure are fixed by a social process beyond the control of the producers, and therefore seem given to them by tradition."

This explanation may really sound quite plausible to the hasty reader, but if we look at it coolly and soberly we get quite a different impression.

The fact with which we have to deal is that the product of a day's or an hour's skilled labor is more valuable than the product of a day's or an hour's unskilled labor; that, for instance, the day's product of a sculptor is equal to the five days' product of a stone-breaker. Now Marx tells us that things made equal to each other in exchange must contain "a common factor of the same amount," and this common factor must be labor and working time. Does he mean labor in general? Marx's first statements up to page 45 would lead us to suppose so; but it is evident that something is wrong, for the labor of five days is obviously not "the same amount" as the labor of one day. Therefore Marx, in the case before us, is no longer speaking of labor as such but of unskilled labor. The common factor must there-

fore be the possession of an equal amount of labor of a particular kind, namely, unskilled labor.

If we look at this dispassionately, however, it fits still worse, for in sculpture there is no "unskilled labor" at all embodied, much less therefore unskilled labor equal to the amount in the five days' labor of the stone-breaker. The plain truth is that the two products embody *different kinds* of labor in *different amounts*, and every unprejudiced person will admit that this means a state of things exactly contrary to the conditions which Marx demands and must affirm, namely, that they embody labor of the *same kind* and of the *same amount*!

Marx certainly says that skilled labor "counts" as multiplied unskilled labor, but to "count as" is not "to be," and the theory deals with the being of things. Men may naturally consider one day of a sculptor's work as equal in some respects to five days of a stone-breaker's work, just as they may also consider a deer as equal to five hares. But a statistician might with equal justification maintain, with scientific conviction, that there were one thousand hares in a cover which contained one hundred deer and five hundred hares, as a statistician of prices or a theorist about value might seriously maintain that in the day's product of a sculptor five days of unskilled labor are embodied, and that this is the true reason why it is considered in exchange to be equal to five days' labor of a stone-breaker. I will presently attempt to illustrate, by an example bearing directly on the problem of value, the multitude of things we might prove if we resorted to the verb "to count" whenever the verb "to be" landed us in difficulties. But I must first add one other criticism.

Marx makes an attempt in the passages quoted to justify his maneuver of reducing skilled labor to common labor, and to justify it by experience.

"That this reduction is constantly made experience shows. A commodity may be the product of the most highly skilled labor, but its value makes it equal to the product of unskilled labor,

and represents therefore only a definite quantity of unskilled labor."

Good! We will let that pass for the moment and will only inquire a little more closely in what manner and by what means we are to determine the standard of this reduction, which, according to Marx, experience shows is constantly made. Here we stumble against the very natural but for the Marxian theory the very compromising circumstance that the standard of reduction is determined solely *by the actual exchange relations themselves*. But in what proportions skilled is to be translated into terms of simple labor in the valuation of their products is not determined, nor can it be determined a priori by any property inherent in the skilled labor itself, but it is the actual result alone which decides the actual exchange relations. Marx himself says "their value makes them equal to the product of unskilled labor," and he refers to a "social process beyond the control of the producers which fixes the proportions in which different kinds of labor are reduced to unskilled labor as their unit of measure," and says that these proportions therefore "*seem to be given by tradition.*"

Under these circumstances what is the meaning of the appeal to "value" and "the social process" as the determining factors of the standard of reduction? Apart from everything else it simply means that Marx is arguing in a complete circle. The real subject of inquiry is the exchange relations of commodities: why, for instance, a statuette which has cost a sculptor one day's labor should exchange for a cart of stones which has cost a stone-breaker five days' labor, and not for a larger or smaller quantity of stones, in the breaking of which ten or three days' labor have been expended. How does Marx explain this? He says the exchange relation is this, and no other—because one day of sculptor's work is reducible exactly to five days of unskilled work. And why is it reducible to exactly five days? Because experience shows that it is so reduced by a social process. And what is this social process? The same process that

has to be explained, that very process by means of which the product of one day of sculptor's labor has been made equal to the value of the product of five days of common labor. But if as a matter of fact it were exchanged regularly against the product of only three days of simple labor, Marx would equally bid us accept the rate of reduction of 1:3 as the one derived from experience, and would found upon it and explain by it the assertion that a statuette must be equal in exchange to the product of exactly three days of a stone-breaker's work—not more and not less. In short, it is clear that we shall never learn in this way the actual reasons why products of different kinds of work should be exchanged in this or that proportion. They exchange in this way, Marx tells us, though in slightly different words, because, according to experience, they do exchange in this way!

I remark further in passing that the followers of Marx, having perhaps recognized the circle I have just described, have made the attempt to place the reduction of complicated to simple work on another, a real, basis.

"It is no fiction but a fact," says Grabski,¹ "that an hour of skilled labor contains several hours of unskilled labor." For "in order to be consistent, we must also take into account the labor which was used in acquiring the skill." I do not think it will need many words to show clearly the complete inadequacy also of this explanation. I have nothing to say against the view that to labor in actual operation should be added the quota due to the acquirement of the power to labor. But it is clear that the difference in value of skilled labor as opposed to unskilled labor could only then be explained by reference to this additional quota if the amount of the latter corresponded to the amount of that difference. For instance, in the case we have given, there could only be actually five hours of unskilled labor in one hour of skilled labor, if four hours of preparatory

¹ *Deutsche Worte*, Vol. XV (March, 1895), p. 155.

labor went to every hour of skilled labor ; or, reckoned in greater units, if out of fifty years of life which a sculptor devotes to the learning and practicing of his profession, he spends forty years in educational work in order to do skilled work for ten years. But no one will maintain that such a proportion or anything approaching to it is actually found to exist. I turn therefore again from the obviously inadequate hypothesis of the disciple to the teaching of the master himself in order to illustrate the nature and range of its errors by one other example, which I think will bring out most clearly the fault in Marx's mode of reasoning.

With the very same reasoning one could affirm and argue the proposition that the quantity of material contained in commodities constitutes the principle and measure of exchange value—that commodities exchange in proportion to the *quantity of material incorporated in them*. Ten pounds of material in one kind of commodity exchange against ten pounds of material in another kind of commodity. If the natural objection were raised that this statement was obviously false because ten pounds of gold do not exchange against ten pounds of iron but against 40,000 pounds, or against a still greater number of pounds of coal, we may reply after the manner of Marx that it is the amount of *common average material* that affects the formation of value, that acts as unit of measurement. Skillfully wrought costly material of special quality *counts* only as compound or rather multiplied common material, so that a small quantity of material fashioned with skill is equal to a larger quantity of common material. *That this reduction is constantly made experience shows*. A commodity may be of the most exquisite material ; its *value* makes it equal to commodities formed of common material, and *therefore represents only a particular quantity of common material*. A "social process," the existence of which cannot be doubted, is persistently reducing the pound of raw gold to 40,000 pounds of raw iron, and the

pound of raw silver to 1,500 pounds of raw iron. The working up of the gold by an ordinary goldsmith or by the hand of a great artist gives rise to further variations in the character of the material to which use, in conformity with experience, does justice by means of special standards of reduction. If one pound of bar gold, therefore, exchanges against 40,000 pounds of bar iron, or if a gold cup of the same weight, wrought by Benvenuto Cellini, exchanges against 4,000,000 pounds of iron, it is not a violation but a confirmation of the proposition that commodities exchange in proportion to the "average" material they contain!

I think the impartial reader will easily recognize once more in these two arguments the two ingredients of the Marxian recipe—the substitution of "to count" for "to be," and the explanation in a circle which consists in obtaining the standard of reduction from the actually existing social exchange relations which themselves need explanation. In this way Marx has settled his account with the facts that most glaringly contradict his theory with great dialectical skill, certainly, but, as far as the matter itself is concerned, naturally and inevitably in a quite inadequate manner.

But there are, besides, contradictions with actual experience rather less striking than the foregoing; those, namely, which spring from the part that the *investment of capital* has in determining the actual prices of commodities, the same which Ricardo—as we have already noticed—treats of in the fourth section of the chapter "On Value." Towards them Marx adopts a change of tactics. For a time he completely shuts his eyes to them. He ignores them, by a process of abstraction, through the first and second volumes, and pretends that they do not exist; that is to say, he proceeds throughout the whole detailed exposition of his doctrine of value, and likewise throughout the development of his theory of surplus value, on the "assumption"—in part tacitly maintained, in part clearly asserted—that commodities really exchange according to their values,

which means exactly in proportion to the labor embodied in them.¹

This hypothetical abstraction he combines with an uncommonly clever dialectical move. He gives certain actual deviations from the law, from which a theorist may really venture to abstract, namely, the accidental and temporary fluctuations of the market prices round their normal fixed level. And on the occasions when Marx explains his intention to disregard the deviations of the prices from the values he does not fail to direct the reader's attention to those "accidental circumstances" which have to be ignored as "the constant oscillations of the market prices," whose "rise and fall compensate each other," and which "reduce themselves to an average price as their inner law."² By this reference he gains the reader's approval of his abstraction, but the fact that he does not abstract merely from accidental fluctuations but also from regular, permanent, typical "deviations," whose existence constitutes an integral part of the rule to be elucidated, is not made manifest to the reader who is not closely observant, and he glides unsuspectingly over the author's fatal error of method.

For it is a fatal error of method to ignore in scientific investigation the very point that demands explanation. Now Marx's theory of surplus value aims at nothing else than the explanation, as he conceives it, of the profits of capital. But the profits of capital lie exactly in those regular deviations of the prices of commodities from the amount of their mere costs in labor. If, therefore, we ignore those deviations, we ignore just the principal part of what has to be explained. Rodbertus³ was guilty of the same error of method, and twelve years ago I taxed him, as well as Marx, with it; and I venture now to repeat the concluding words of the criticism I then made:

¹ For example, Vol. I, pp. 176 ff., 184, 185, 191, and often; also in the beginning of the third volume, pp. 65, 176, 177, 181.

² For example, Vol. I, p. 184n.

³ As to Rodbertus, see the exhaustive account in my *Capital and Interest*, pp. 354 ff., 356n.

“They [the adherents of the exploitation theory] maintain the law that the value of all commodities rests on the working time embodied in them in order that the next moment they may attack as ‘opposed to law,’ ‘unnatural,’ and ‘unjust,’ all forms of value that do not harmonize with this ‘law’ (such as the difference in value that falls as surplus to the capitalist), and demand their abolition. Thus they first ignore the exceptions in order to proclaim their law of value as universal. And after thus assuming its universality they again draw attention to the exceptions in order to brand them as offenses against the law. This kind of argument is very much as if we were to assume that there were many foolish people in the world, and to ignore that there were also many wise ones, and then, coming to the ‘universally valid law’ that ‘all men are foolish,’ should demand the extirpation of the wise on the ground that their existence is obviously ‘contrary to law.’”¹

By his maneuver of abstraction Marx certainly gained a great tactical advantage for his own version of the case. He, “by hypothesis,” shut out from his system the disturbing real world, and did not therefore, so long as he could maintain this exclusion, come into conflict with it; and he does maintain it through the greater part of the first volume, through the whole of the second volume, and through the first quarter of the third volume. In this middle part of the Marxian system the logical development and connection present a really imposing closeness and intrinsic consistency. Marx is free to use good logic here because, by means of hypothesis, he has in advance made the facts to square with his ideas, and can therefore be true to the latter without knocking up against the former. And when Marx is free to use sound logic he does so in a truly masterly way. However wrong the starting point may be, these middle parts of the system, by their extraordinary logical consistency, permanently establish the reputation of the author as an intellectual force of

¹ *Ibid.*, p. 388.

the first rank. And it is a circumstance that has served not a little to increase the practical influence of the Marxian system that during this long middle part of his work, which, as far as intrinsic consistency is concerned, is really essentially faultless, the readers who have got happily over the difficulties at the beginning get time to accustom themselves to the Marxian world of thought and to gain confidence in his connection of ideas, which here flow so smoothly, one out of the other, and form themselves into such a well-arranged whole. It is on these readers, whose confidence has been thus won, that he makes those hard demands which he is at last obliged to bring forward in his third volume. For, long as Marx delayed to open his eyes to the facts of real life, he had to do it some time or other. He had at last to confess to his readers that in actual life commodities do not exchange, regularly and of necessity, in proportion to the working time incorporated in them, but in part exchange above and in part below this proportion, according as the capital invested demands a smaller or a larger amount of the average profit; in short that, besides working time, investment of capital forms a co-ordinate determinant of the exchange relation of commodities. From this point he was confronted with two difficult tasks. In the first place he had to justify himself to his readers for having in the earlier parts of his work and for so long taught that labor was the sole determinant of exchange relations; and secondly—what was perhaps the more difficult task—he had also to give his readers a theoretical explanation of the facts which were hostile to his theory, an explanation which certainly could not fit into his labor theory of value without leaving a residuum, but which must not, on the other hand, contradict it.

One can understand that good straightforward logic could no longer be used in these demonstrations. We now witness the counterpart to the confused beginning of the system. There Marx had to do violence to facts in order to deduce a theorem which could not be straightforwardly deduced from them, and

he had to do still greater violence to logic and commit the most incredible fallacies into the bargain. Now the situation repeats itself. Now again the propositions which through two volumes have been in undisturbed possession of the field come into collision with the facts with which they are naturally as little in agreement as they were before. Nevertheless the harmony of the system has to be maintained, and it can only be maintained at the cost of the logic. The Marxian system, therefore, presents us now with a spectacle at first sight strange, but, under the circumstances described, quite natural, namely, that by far the greater part of the system is a masterpiece of close and forcible logic worthy of the intellect of its author, but that in two places—and those, alas! just the most decisive places—incredibly weak and careless reasoning is inserted. The first place is just at the beginning when the theory first separates itself from the facts, and the second is after the first quarter of the third volume when facts are again brought within the horizon of the reader. I here refer more especially to the tenth chapter of the third volume (pp. 203-234).

We have already become acquainted with one part of its contents, and we have subjected it to our criticism, the part, namely, where Marx defends himself against the accusation that there is a contradiction between the law of the price of production and the "law of value."¹ It still remains, however, to glance at the second object with which the chapter is concerned, the explanation with which Marx introduces into his system that theory of the price of production which takes account of actual conditions.² This consideration leads us also to one of the most instructive and most characteristic points of the Marxian system—the position of "*competition*" in the system.

¹ See above.

² Of course I here quite disregard comparatively small differences of opinion. I have especially refrained in the whole of this paragraph from emphasizing or even mentioning the finer shades of difference which obtain in relation to the conception of the "law of costs."

Section III

“COMPETITION,” as I have already hinted, is a sort of collective name for all the psychical motives and impulses which determine the action of the dealers in the market, and which thus influence the fixing of prices. The buyer has his motives which actuate him in buying, and which provide him with a certain guide as to the prices which he is prepared to offer either at once or in the last resort. And the seller and the producer are also actuated by certain motives—motives which determine the seller to part with his commodities at a certain price and not at another price, and the producer to continue and even to extend his production when prices reach a certain level, or to suspend it when they are at a different level. In the competition between buyer and seller all these motives and determinants encounter each other, and whoever refers to competition to explain the formation of prices appeals in effect to what under a collective name is the active play of all the psychical impulses and motives which had directed both sides of the market.

Marx is now, for the most part, engaged in the endeavor to give to competition and the forces operating in it the lowest possible place in his system. He either ignores it, or, if he does not do this, he tries to belittle the manner and degree of its influence where and whenever he can. This is shown in a striking way on several occasions.

First of all he does this when he deduces his law that value is wholly labor. Every impartial person knows and sees that that influence which the quantity of labor employed exerts on the permanent level of prices of goods (an influence not really so special and peculiar as the Marxian law of value makes it appear) acts only through the play of supply and demand, that is to say, through competition. In the case of exceptional exchanges, or in the case of monopoly, prices may come into existence which (even apart from the claim of the capital invested)

are out of all proportion to the working time incorporated. Marx naturally knows this too, but he makes no reference to it in his deduction of the law of value. If he had referred to it, then he would have been unable to put aside the question in what way and by what intermediate steps working time should come to be the sole influence determining the height of prices among all the motives and factors which play their part under the flag of competition. The complete analysis of those motives, which then could not have been avoided, would inevitably have placed the value in use much more in the foreground than would have suited Marx, and would have cast a different light on many things, and finally would have revealed much to which Marx did not wish to allow any weight in his system.

And so on the very occasion when, in order to give a complete and systematic explanation of his law of value, it would have been his duty to have shown the part which competition plays as intermediary, he passes away from the point without a word. Later on he does notice it, but, to judge from the place and the manner, not as if it were an important point in the theoretical system; in some casual and cursory remarks he alludes to it in a few words as something that more or less explains itself, and he does not trouble himself to go further into it.

I think that the said facts about competition are most clearly and concisely set forth by Marx in page 209 of the third volume, where the exchange of commodities at prices which approximate to their "values" and correspond therefore to the working time incorporated in them is said to be subject to the three following conditions: (1) that the exchange of commodities be not merely an "*accidental or occasional one*," (2) that commodities "on both sides should be produced in quantities nearly proportionate to the reciprocal demand, *which itself results from the experience of both sides of the market, and which therefore grows as a result out of a sustained exchange itself*"; and (3) "*that no natural or artificial monopoly should give to either of the contracting parties the power to sell above the value, or should force*

either of them to sell below the value." And so what Marx demands as a condition of his law of value coming into operation is a brisk competition on both sides which should have lasted long enough to adjust production relatively to the needs of the buyer according to the experience of the market. We must bear this passage well in mind.

No more detailed proof is added. On the contrary, a little later—indeed, just in the middle of those arguments in which, relatively speaking, he treats most exhaustively of competition, its two sides of demand and supply, and its relation to the fixing of prices—Marx expressly declines a "deeper analysis of these two social impelling forces" as "not apposite here."¹

But this is not all. In order to belittle the importance, for the theoretical system, of supply and demand, and perhaps also to justify his neglect of these factors, Marx thought out a peculiar and remarkable theory which he develops on pages 223-224 of the third volume, after some previous slight allusions to it. He starts by saying that when one of the two factors preponderates over the other, demand over supply, for instance, or vice versa, irregular market prices are formed which deviate from the "market value," which constitutes the "point of equilibrium" for these market prices; that, on the other hand, if commodities should sell at this their normal market value, demand and supply must exactly balance each other. And to that he adds the following remarkable argument: "If demand and supply balance each other *they cease to act*. If two forces act equally in opposite directions they cancel each other—they produce no result, and phenomena occurring under these conditions *must be explained by some other agency than either of these forces*. If supply and demand cancel each other *they cease to explain anything, they do not affect the market value*, and they leave us altogether in the dark as to the reasons why the market value should express itself in just this and no other sum of money."

¹ Vol. III, p. 223. See also above.

The relation of demand to supply can be rightly used to explain the "deviations from the market value" which are due to the preponderance of one force over the other, but not the level of the market value itself.

That this curious theory squared with the Marxian system is obvious. If the relation of supply to demand had absolutely no bearing on the level of permanent prices, then Marx was quite right, in laying down his principles, not to trouble himself further with this unimportant factor, and straightway to introduce into his system the factor which, in his opinion, exercised a real influence on the degree of value, that is, labor.

It is, however, not less obvious, I think, that this curious theory is absolutely false. Its reasoning rests, as is so often the case with Marx, on a play upon words.

It is quite true that when a commodity sells at its normal market value, supply and demand must in a certain sense balance each other: that is to say, at this price, just the same quantity of the commodity is effectively demanded as is offered. But this is not only the case when commodities are sold at a normal market value, but at whatever market value they are sold, even when it is a varying irregular one. Moreover, every one knows quite well, as does Marx himself, that supply and demand are elastic quantities. In addition to the supply and demand which enters into exchange, there is always an "excluded" demand or supply, that is, a number of people who equally desire the commodities for their needs, but who will not or cannot offer the prices offered by their stronger competitors; and a number of people who are also prepared to offer the desired commodities, only at higher prices than can be obtained in the then state of the market. But the saying that demand and supply "balance each other" does not apply absolutely to the *total* demand and supply, but only to the *successful part of it*. It is well known, however, that the business of the market consists precisely in selecting the successful part out of the total demand and the total supply, and that the most important means to this selec-

tion is the fixing of price. More commodities cannot be bought than are sold. Hence, on the two sides, only a certain fixed number of reflectors (reflectors for only a certain fixed number of commodities) can arrive at a focus. The selection of this number is accomplished by the automatic advance of prices to a point which excludes the excess in number on both sides; so that the price is at the same time too high for the excess of the would-be buyers and too low for the excess of the would-be sellers. It is not, therefore, the successful competitors only who take part in determining the level of prices, but the respective circumstances of those who are excluded have a share in it as well;¹ and on that account, if on no other, it is wrong to argue the complete suspension of the action of supply and demand from the equilibrium of the part which comes effectively into the market.

But it is wrong also for another reason. Assuming that it is only the successful part of supply and demand, being in quantitative equilibrium, that affects the fixing of price, it is quite erroneous and unscientific to assume that forces which hold each other in equilibrium therefore "cease to act." On the contrary, the state of equilibrium is precisely the result of their action, and when an explanation has to be given of this state of equilibrium with all its details—one of the most prominent of which is the height of the level in which the equilibrium was found—it certainly cannot be given "in some other way than by the agency of the two forces." On the contrary, it is only by the agency of the forces which maintain the equilibrium that it can be explained. But such abstract propositions can best be illustrated by a practical example.

¹ A closer analysis shows that the price must fall between the money estimates of the so-called marginal pairs, that is, between the amounts which the last actual buyer and the first would-be buyer who is excluded from the market are prepared to offer, and the amounts which the last actual seller and the first would-be seller who is excluded are prepared to take in the last resort for the commodities. For further details see my *Positive Theory of Capital*, p. 208.

Suppose we send up an air balloon. Everybody knows that a balloon rises if and because it is filled with a gas which is thinner than the atmosphere. It does not rise indefinitely, however, but only to a certain height, where it remains floating so long as nothing occurs, such as an escape of gas, to alter the conditions. Now how is the degree of altitude regulated, and by what factor is it determined? This is transparently evident. The density of the atmosphere diminishes as we rise. The balloon rises only so long as the density of the surrounding stratum of atmosphere is greater than its own density, and it ceases to rise when its own density and the density of the atmosphere hold each other in equipoise. The less dense the gas, therefore, the higher the balloon will rise, and the higher the stratum of air in which it finds the same degree of atmospheric density. It is obvious, under these circumstances, therefore, that the height to which the balloon rises cannot be explained in any other way than by considering the relative density of the balloon on one side and of the atmosphere on the other.

How does the matter appear, however, from the Marxian point of view? At a certain height both forces, density of the balloon and density of the surrounding air, are in equipoise. They, therefore, "cease to act," they "cease to explain anything," they do not affect the degree of ascent, and if we wish to explain this we must do it by "something else than the agency of these two forces." "Indeed," we say, "by what then?" Or again, when the index of a weighing machine points to 100 pounds when a body is being weighed, how are we to account for this position of the index of the weighing machine? We are *not* to account for it by the relation of the weight of the body to be weighed on the one side and the weights which serve in the weighing machine on the other, for these two forces, when the index of the weighing machine is in the position referred to, hold each other in equipoise; they therefore cease to act, and nothing can be explained from their relationship, not even the position of the index of the weighing machine.

I think the fallacy here is obvious, and that it is not less obvious that the same kind of fallacy lies at the root of the arguments by which Marx reasons away the influence of supply and demand on the level of permanent prices. Let there be no misunderstanding, however. It is by no means my opinion that a really complete and satisfying explanation of the fixing of permanent prices is contained in a reference to the formula of supply and demand. On the contrary, the opinion, which I have elsewhere often expressed at length, is that the elements which can only be roughly comprehended under the term "supply and demand" ought to be closely analyzed, and the manner and measure of their reciprocal influence exactly defined; and that in this way we should proceed to the attainment of the knowledge of those elements which exert a special influence on the state of prices. But the influence of the relation of supply and demand which Marx reasons away is an indispensable link in this further and more profound explanation; it is not a side issue, but one that goes to the heart of the subject.

Let us take up again the threads of our argument. Various things have shown us how hard Marx tries to make the influence of supply and demand retire into the background of his system, and now at the remarkable turn which his system takes after the first quarter of the third volume he is confronted by the task of explaining why the permanent prices of commodities do not gravitate towards the incorporated quantity of labor but towards the "prices of production" which deviate from it.

He declares competition to be the force which causes this. Competition reduces the original rates of profit, which were different for the different branches of production according to the different organic compositions of the capitals, to a common average rate of profit,¹ and consequently the prices must in the long run gravitate towards the prices of production yielding the one equal average profit.

¹ See above.

Let us hasten to settle some points which are important to the understanding of this explanation.

First, it is certain that a reference to competition is in effect nothing else than a reference to the action of supply and demand. In the passage already mentioned, in which Marx describes most concisely the process of the equalization of the rates of profit by the competition of capitals (III, 230), he expressly says that this process is brought about by "such a relation of supply to demand that the average profit is made equal in the different spheres of production, and that therefore values change into prices of production."

Secondly, it is certain that, as regards this process, it is not a question of mere *fluctuations* round the center of gravitation contemplated in the theory of the first two volumes, that is, round the incorporated working time, but a question of a *definitive forcing* of prices to another permanent center of gravitation, the price of production.

And now question follows on question.

If, according to Marx, the relation of supply and demand exerts no influence at all on the level of permanent prices, how can competition, which is identical with this relation, be the power which shifts the level of the permanent prices from the level of "value" to a level so different as that of the price of production?

Do we not rather see, in this forced and inconsistent appeal to competition as the *deus ex machina* which drives the permanent prices from that center of gravitation which is in keeping with the theory of embodied labor to another center, an involuntary confession that the social forces which govern actual life contain in themselves, and bring into action, some elementary determinants of exchange relations which *cannot* be reduced to working time, and that consequently the analysis of the original theory which yielded working time alone as the basis of exchange relations was an incomplete one which did not correspond with the facts?

And further : Marx has told us himself, and we have carefully noted the passage,¹ that commodities exchange approximately to their values only when a brisk competition exists. Thus he, at that time, appealed to competition as a factor which tends to push the prices of commodities towards their "values." And now we learn, on the contrary, that competition is a force which pushes the prices of commodities away from their values and on to their prices of production. These statements, moreover, are found in one and the same chapter—the tenth chapter, destined, it would seem, to an unhappy notoriety. Can they be reconciled? And, if Marx perhaps thought that he could find a reconciliation in the view that one proposition applied to primitive conditions and the other to developed modern society, must we not point out to him that in the first chapter of his work he did not deduce his theory that value was wholly labor from a *Robinsonade*, but from the conditions of a society in which a "capitalist mode of production prevails" and the "wealth" of which "appears as an immense collection of commodities"? And does he not demand of us throughout his whole work that we should view the conditions of our modern society in the light of his theory of labor, and judge them by it? But when we ask where, according to his own statements, we are to seek in modern society for the region in which his law of value is in force, we ask in vain. For either there is no competition, in which case commodities do not at all exchange according to their values, says Marx (III, 209); or competition exists, and precisely then, he states, they still less exchange according to their values, but according to their prices of production (III, 230).

And so in the unfortunate tenth chapter contradiction is heaped upon contradiction. I will not prolong the already lengthy inquiry by counting up all the lesser contradictions and inaccuracies with which this chapter abounds. I think every one who reads the chapter with an impartial mind will get the im-

¹ See above, pp. 93 ff.

pression that the writing is, so to speak, demoralized. Instead of the severe, pregnant, careful style, instead of the iron logic to which we are accustomed in the most brilliant parts of Marx's works, we have here an uncertain and desultory manner not only in the reasoning but even in the use of technical terms. How striking, for instance, is the constantly changing conception of the terms "supply" and "demand," which at one time are presented to us, quite rightly, as elastic quantities, with differences of intensity, but at another are regarded, after the worst manner of a long-exploded "vulgar economy," as simple quantities. Or how unsatisfying and inconsistent is the description of the factors which govern the market value, if the different portions of the mass of commodities which come into the market are created under unequal conditions of production, etc.

The explanation of this feature of the chapter cannot be found simply in the fact that it was written by Marx when he was growing old; for even in later parts there are many splendidly written arguments; and even this unfortunate chapter, of which obscure hints were already scattered here and there in the first volume,¹ must have been *thought out* earlier. Marx's writing is confused and vacillating here because he could not venture to write clearly and definitely without open contradiction and retractation. If at the time when he was dealing with actual exchange relations—those manifested in real life—he had pursued the subject with the same luminous penetration and thoroughness with which he followed, through two volumes, the hypothesis that value is labor to its utmost logical conclusion; if at this juncture he had given to the important term "competition" a scientific import, by a careful economico-psychological analysis of the social motive forces which come into action under that comprehensive name; if he had not halted or rested, so long as a link in the argument remained unexplained, or a consequence not carried to its logical conclusion; or so long as one relation

¹ For example, Vol. I, pp. 184n, 244n.

appeared dark and contradictory—and almost every word of this tenth chapter challenges a deeper inquiry or explanation such as this—he would have been driven step by step to the exposition of a system altogether different in purport from that of his original system, nor would he have been able to avoid the open contradiction and withdrawal of the main proposition of the original system. This could only be avoided by confusion and mystification. Marx must often instinctively have felt this, even if he did not know it, when he expressly declined the deeper analysis of the social motive forces.

Herein lies, I believe, the alpha and omega of all that is fallacious, contradictory, and vague in the treatment of his subject by Marx. His system is not in close touch with facts. Marx has not deduced from facts the fundamental principles of his system, either by means of a sound empiricism or a solid economic-psychological analysis; he founds it on no firmer ground than a formal dialectic. This is the great radical fault of the Marxian system at its birth; from it all the rest necessarily springs. The system runs in one direction, facts go in another; and they cross the course of the system sometimes here, sometimes there, and on each occasion the original fault begets a new fault. The conflict of system and facts must be kept from view, so that the matter is shrouded either in darkness or vagueness, or it is turned and twisted with the same tricks of dialectic as at the outset; or where none of this avails we have a contradiction. Such is the character of the tenth chapter of Marx's third volume. It brings the long-deferred bad harvest, which grew by necessity out of the bad seed.