

## EDITOR'S INTRODUCTION

**T**HIS volume brings together two of the most important items in the large literature concerned with criticizing and evaluating the economic doctrines of Karl Marx. Böhm-Bawerk's contribution, in its English translation, has been out of print and very difficult to obtain for many years. Hilferding's answer to Böhm-Bawerk was brought out in translation by an obscure socialist publisher in Glasgow and never acquired wide circulation in either Britain or this country. In view of the recent growth of interest in Marxism, I believe the time has come to make these works available to a larger English-reading public; and I also believe that each gains in value through being presented side by side with the other.

As an appendix there is included an article by the German statistician-economist Bortkiewicz. This article, bearing on one of the central points at issue between Böhm-Bawerk and Hilferding, has achieved considerable fame; but hitherto it has not been translated into English, and I have seen no evidence that it has been read by more than a handful of specialists. I believe that serious students of Marxian economics, whether hostile or friendly, will be glad to have it made readily available for study and reference.

In this introduction I shall discuss these three works in the hope of illuminating the point of view from which their authors

wrote and of placing them in the development of the literature of which they form a part.

#### BÖHM-BAWERK'S CRITICISM OF MARX

BÖHM-BAWERK'S WORK was first published in 1896, under the title *Zum Abschluss des Marxschen Systems*, in a volume of essays in honor of Karl Knies.<sup>1</sup> It appeared in Russian the following year and in English (in both London and New York) in 1898.

The original English title is retained here because it is by this title that the work is now widely known. At the same time it is necessary to point out that this title is not strictly accurate and has given rise to misunderstandings. "Karl Marx and the Close of His System" sounds like an obituary for Marx and his theories;<sup>2</sup> but, though the spirit of an obituary is not lacking from Böhm-Bawerk's writing, it would be mistaken to assume that this is what he intended to convey by the title. The third and final volume of *Capital* was published by Engels in 1894, and Böhm-Bawerk's work was in the nature of an extended review. The German title means simply "On the Conclusion of the Marxian System," and this describes the work as accurately as a brief title can.

It was quite natural, one might almost say inevitable, that Böhm-Bawerk should write this book. In his well-known history of theories of capital and interest,<sup>3</sup> he had devoted a whole

<sup>1</sup> O. v. Boenigk, ed., *Staatswissenschaftliche Arbeiten: Festgaben für Karl Knies*, Berlin, 1896. It appeared in separate covers during the same year and was reprinted in Franz X. Weiss, ed., *Böhm-Bawerk's Kleinere Abhandlungen über Kapital und Zins*, Vienna and Leipzig, 1926.

<sup>2</sup> For example, this seems to be the sense in which William Blake interprets it. See *An American Looks at Karl Marx* (1939), pp. 414-415, 424.

<sup>3</sup> *Geschichte und Kritik der Kapitalzins-Theorien*, first edition, 1884. Published in English (translation by William Smart) as *Capital and Interest*, 1890. The second and third editions, each with much new material, appeared in 1900 and 1914. They have not been translated into English. The fourth edition appeared in 1921 and is merely a reprint of the third.

chapter to criticism of the theories of value and surplus value expounded in the first volume of *Capital*. There he had noted that Marx was aware that commodities do not in fact sell at their values under developed capitalist conditions. He also noted that Marx promised to solve this problem in a later volume, a promise which Böhm-Bawerk was convinced Marx could not keep.<sup>1</sup> Hence, when the third volume finally appeared with Marx's detailed treatment of this question, Böhm-Bawerk doubtless felt duty bound to examine it with all possible care and to pronounce his verdict.

In *Karl Marx and the Close of His System*, Böhm-Bawerk took over the main arguments of his chapter on Marx from the first edition of *Capital and Interest*; and in subsequent editions of the latter he incorporated the substance of the criticism of the third volume of *Capital* from *Karl Marx and the Close of His System*. Nevertheless, the latter is far more detailed and elaborate; not only does it stand on its own feet but it contains all that is important in Böhm-Bawerk's writings on Marxian economics.

If we are to understand the significance of *Karl Marx and the Close of His System* it is necessary to identify Böhm-Bawerk and to recognize his place in the development of modern economic theory.

The relevant facts of his career can be briefly told. Eugen von Böhm-Bawerk was born (1851) into one of the aristocratic-bureaucratic families which were the real rulers of Imperial Austria, his father being at the time a high official in Moravia. When he was still very young his father died and the family moved to Vienna where, except for nine years of teaching at the University of Innsbruck (1880-1889), he spent most of the rest

<sup>1</sup> "It is singular," Böhm-Bawerk wrote, "that Marx himself became aware of the fact that there was a contradiction here, and found it necessary for the sake of his solution to promise to deal with it later on. But the promise was never kept, and indeed could not be kept." *Capital and Interest*, p. 390.

of his life. After taking a course of law at the University of Vienna he entered the Finance Ministry in 1872. In 1875 he took a three-year leave of absence to study economics with some of the outstanding German professors of the day. From this time on, his career was a mixture of government service and university teaching. He served as Finance Minister in three different cabinets (1895, 1897-1898, 1900-1904). From 1904 until his death in 1914 he held a chair in political economy at the University of Vienna.

As an economist, Böhm-Bawerk was from the first a champion of the new subjective value or marginal utility theory which his somewhat older contemporary, Carl Menger, had been the first to enunciate in Austria. Böhm-Bawerk, along with Menger and Friedrich Wieser (whose sister he married in 1880), was thus one of the founders of the so-called Austrian school. His two major works, *Capital and Interest* and *The Positive Theory of Capital*, were published in 1884 and 1889 respectively, before he was forty years old; and as the subjective value theory spread geographically and gained in popularity, Böhm-Bawerk's fame grew by leaps and bounds. Outside of his own country he came to be much better known than Menger or Wieser, and by the turn of the century it is probable that his international reputation was greater than that of any other living economist, with the possible exception of Alfred Marshall. Only in Britain, where the authority of Marshall and Edgeworth (at Cambridge and Oxford respectively) was virtually unchallenged, did Böhm-Bawerk fail to attract a substantial following; while in countries as widely separated as Sweden, the United States, and Japan his influence upon academic economics was profound.

It is against this background that we must evaluate Böhm-Bawerk's critique of the theories of Marx. Organized socialism in Europe experienced a rapid growth in the last three decades of the nineteenth century, and it was also during this period that within the continental socialist movement Marxism won out

over rival schools and doctrines.<sup>1</sup> Hence, while the original reaction of the academic world had been to ignore Marx, it became increasingly difficult to maintain this attitude; as time went on it became more and more urgent to organize a counter-attack.

The publication of the third volume of *Capital* offered the perfect opportunity, and Böhm-Bawerk was a "natural" to take the lead. He had already, in *Capital and Interest*, established himself as a formidable opponent of Marxism by his attacks on what he called the "exploitation theory" of interest; his international reputation insured that whatever he wrote would receive a wide and respectful hearing. It is therefore not surprising that when *Karl Marx and the Close of His System* was published in 1896 it was an immediate success and soon became what might almost be called the official answer of the economics profession to Marx and the Marxian school.

It would not be fruitful to trace in detail the influence of Böhm-Bawerk's critique on orthodox economics, especially since a large part of that influence was never formally acknowledged and hence would be practically impossible to document. Franz X. Weiss, the editor of Böhm-Bawerk's collected papers, undoubtedly expressed the view of most continental academic economists when he wrote that *Karl Marx and the Close of His System* "is rightly regarded as the best criticism of the Marxian theories of value and surplus value."<sup>2</sup>

So far as the United States is concerned, all the serious criticisms of Marxian economics with which I am acquainted recognize the authority, if not the primacy, of Böhm-Bawerk in this

<sup>1</sup> Engels summed up these developments in his triumphal appearance before the Zurich Congress of the Second International (1893). "From the little sects of those days [the 1840's]," he told the cheering delegates, "socialism has now developed into a powerful party before which the whole world of officialdom trembles. Marx is dead; but if he were still alive, there would be no man in Europe or America who could look back on his lifework with better reason for pride." Quoted in Gustav Mayer, *Friedrich Engels* (1934), pp. 322-323.

<sup>2</sup> Biographical introduction to *Gesammelte Schriften von Eugen von Böhm-Bawerk* (1924), pp. vii-viii.

field; <sup>1</sup> while the similarity of the anti-Marxian arguments in the average textbook to those of Böhm-Bawerk is too striking to be easily accounted a coincidence.

From the Marxian camp the testimony to Böhm-Bawerk's pre-eminence as an opponent is at least as striking. Louis B. Boudin, in the economic chapters of his important survey of the Marxian system and its critics, pays most attention to Böhm-Bawerk's arguments: "First because Böhm-Bawerk is so far superior to his comrades in arms and his authority is acknowledged by them to such an extent, that it can hardly be claimed to be unfair to these critics, to pick Böhm-Bawerk as an example of them all. Second, because there seems to be quite a good deal of unanimity among these critics on this particular point [value theory], and the arguments advanced by the others are either directly borrowed from Böhm-Bawerk, very often with an acknowledgment of receipt, or are variations on the same tune deserving no particular attention."<sup>2</sup> The situation did not change greatly in this respect in the following decades. William Blake, writing in 1939, could say: "Böhm-Bawerk anticipated nearly all the attacks on Marxism from the viewpoint of those who hold political economy to center on a subjective theory of value. On the whole, little has been added to his case by other critics; their important contributions are outside the theories he chose to contest."<sup>3</sup>

<sup>1</sup> See, for example, O. D. Skelton's *Socialism: A Critical Analysis* (1911), which is perhaps the ablest anti-socialist book by an American. Skelton refers to *Karl Marx and the Close of His System* as a "classic analysis," and his own thought is obviously strongly influenced by it. In his well-known textbook, the late Professor Taussig devoted two chapters to socialism; in his bibliography to these chapters he lists Böhm-Bawerk first among "the innumerable discussions and refutations of the Marxian doctrines." *Principles of Economics*, 3rd ed. (1921), Vol. II, p. 502. It would be easy to multiply examples.

<sup>2</sup> *The Theoretical System of Karl Marx* (1907), p. 85.

<sup>3</sup> *Op. cit.*, p. 415. I may perhaps also be allowed to quote what I wrote myself at about the same time: "By far the best statement of this point of view [i.e. that the alleged contradiction between Volumes I and III of *Capital* proves the uselessness of the labor theory of value] is that of Böhm-Bawerk, *Karl Marx and the Close of His System*. It is hardly an exaggeration to say

It has been necessary to stress the historical importance of Böhm-Bawerk's criticism of Marx, but this should not lead us into the error of falsely evaluating the work itself. The truth is that in its essentials *Karl Marx and the Close of His System* is not a particularly remarkable performance. It is obviously the work of a skilled debater, but its intellectual content is largely confined to applications of the elementary principles of the marginal utility theory. Böhm-Bawerk's line of reasoning was thoroughly familiar in academic economic circles, and any number of his contemporaries could have produced a critique of Marx which would have differed from Böhm-Bawerk's only in matters of emphasis and detail. The examples of Wicksteed<sup>1</sup> in England and Pareto<sup>2</sup> in the Latin countries prove this, if indeed proof is required. We do not need to assume, therefore, that things would have been much different if *Karl Marx and the Close of His System* had never been written. Some other economist would have come forward to do the job which Böhm-Bawerk did; or perhaps Pareto's critique, since it bore the

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that subsequent critiques of Marxian economics have been mere repetitions of Böhm's arguments. The one great exception is the critique of Ladislaus von Bortkiewicz." *The Theory of Capitalist Development* (1942), p. 70n. I discuss Bortkiewicz later in the present introduction.

<sup>1</sup> P. H. Wicksteed, *Das Kapital: A Criticism*, first published in the socialist magazine *Today*, October, 1884; reprinted in *The Common Sense of Political Economy* (1933), Vol. II, pp. 705ff. In my judgment Wicksteed's criticism, despite its brevity, is in many respects a better piece of work than the virtually simultaneous chapter on Marx in Böhm-Bawerk's *Capital and Interest*. It is interesting to note that Wicksteed's review appeared at a time when Marxism seemed to be making real headway in Britain. Later on, when the British labor movement had definitely turned away from Marxism, no top-flight British economist showed any interest in the subject until Mrs. Joan Robinson's very interesting *Essay on Marxian Economics* (1942).

<sup>2</sup> Pareto's criticism of Marx is divided into two parts, separated by nearly a decade. First, his introduction to *Karl Marx: Le capital, extraits faits par M. Paul Lafargue* (1893); second, two chapters entitled "L'économie marxiste" and "La théorie matérialiste de l'histoire et la lutte des classes" (totaling 133 pages) in *Les systèmes socialistes* (2 vols., 1902). Both of these, written in Pareto's characteristically arrogant and superficial manner, I consider definitely inferior to Böhm-Bawerk. A useful commentary on Pareto is Erwin Schuler, *Pareto's Marx-Kritik* (written before 1933, published 1935).

authoritative stamp of the Lausanne school, might have assumed the pre-eminent position that Böhm-Bawerk's actually occupied.<sup>1</sup> Marx had to be refuted, and history, in casting her eyes over the possible candidates, selected Böhm-Bawerk as best fitted for the assignment. But if he had refused or fallen down on the job, some one else would have been ready to take his place. Here is a case, I think, where we can clearly accept Engels' dictum: "That such and such a man and precisely that man arises at that particular time in that given country is of course pure accident. But cut him out and there will be a demand for a substitute, and this substitute will be found, good or bad, but in the long run he will be found."<sup>2</sup>

It is not my purpose in this introduction to discuss the details of Böhm-Bawerk's case against Marx. The reader can follow these through for himself. But I think it is necessary to say something about the attitude which Böhm-Bawerk adopts toward Marx and the scope of the criticism which follows from this attitude.

Böhm-Bawerk was writing at a time when subjective value theory had scored its greatest triumphs and was the accepted basis of serious academic economics. He, in common with its other exponents, was completely convinced that economics had at last attained to the coveted status of a genuine science; and he took it for granted as requiring no argument that the problems which he and his colleagues (both in Austria and abroad) were working on were *the* problems which the young science must attempt to solve. In keeping with this attitude, Böhm-Bawerk implicitly, and no doubt unconsciously, assumed that Marx had been engaged in the same enterprise and could legiti-

<sup>1</sup> It could be argued that Pareto did in fact occupy this position in the Latin countries. I do not know the relevant literature well enough to form an opinion on this; but I do know that Pareto's criticisms of Marx were never translated and exerted no significant influence in German- or English-speaking countries.

<sup>2</sup> Marx-Engels, *Selected Correspondence* (1935), p. 518.



mately be judged by the same standards as might be applied, for example, to Marshall or J. B. Clark.

What were these problems which economics was trying to solve? They all centered around and were really dependent upon the problem of value, in the sense of exchange ratios established upon the market. ("Price" as the money expression of value was regarded as the proper subject of monetary as opposed to "pure" theory.) Indeed, all the phenomena of economics—such as wages, rent, interest, and profits—were in the last analysis special cases of the problem of value, *derived from* and *regulated by* the operations of commodity markets in a more or less complex fashion.

Given this starting point, the subjective value theorist has hardly any choice when he undertakes to evaluate a systematic body of economic doctrine such as that of Marx. He must first test the value theory. Does it explain the phenomena of exchange ratios as they are found in typical, concrete market situations? If so, he can proceed to the rest of the theory. If not, then the rest of the theory must necessarily be wrong and there is no sense in wasting time on it. It is like a problem in arithmetic: if you find an error in the first line, you know that the answer must be wrong and that the subsequent calculations are worthless.

It was entirely within the framework of this approach that Böhm-Bawerk carried out his examination of Marxian theory. After a brief introduction, he devotes two chapters to setting out Marx's theories of value, surplus value, average rate of profit, and price of production—"for the sake of connection," as he says.<sup>1</sup> On the basis of this exposition he concludes that Marx had not one but two theories of value (one in Volume I of *Capital* and another in Volume III) in Böhm-Bawerk's sense of the term, that is, market exchange ratios. Moreover, according to Böhm-Bawerk, these two theories lead to different results, not occasionally or exceptionally but regularly and as a matter of

<sup>1</sup> Below, p. 3 ff.

principle. Hence, Böhm-Bawerk "cannot help himself"; he is forced to the conclusion that there is a contradiction between Volume I and Volume III of *Capital*. He next proceeds to analyze at length—more than a third of the whole critique is devoted to this—the arguments by which, according to Böhm-Bawerk, Marx seeks to prove that the contradiction is only apparent and that the theory of Volume I is valid, after all. Having disposed of these arguments one by one, Böhm-Bawerk is at last ready to deal with the heart of the matter, "the error in the Marxian system," for it is by now clear that error there must be. Naturally, he finds that the error lies in the fact that Marx started from the old-fashioned and exploded labor theory of value instead of pushing his way through to the new and scientifically correct subjective theory of value. This error ramifies throughout the system and vitiates it from top to bottom.

This, then, is the form and substance of Böhm-Bawerk's case against Marx. It is particularly important to recognize that it is not a personal attack on Marx.<sup>1</sup> Nor is it simply one theorist's dissection of the work of another, though this is undoubtedly what Böhm-Bawerk was aiming at. It is rather a systematic exposition of why subjective value theory, the "new economics" of half a century ago, rejected the Marxian system root and branch. It is this fact, rather than any special brilliance or originality in the work itself, which constitutes the importance of Böhm-Bawerk's critique.

#### HILFERDING'S REPLY TO BÖHM-BAWERK

*Das Finanzkapital* by Rudolf Hilferding is certainly one of the best-known works in the field of Marxian economics since

<sup>1</sup> Franz Weiss says, with justice, that "Böhm-Bawerk's criticism of Marx contrasts favorably with much that has since been written, both for and against Marx, by its dispassionate tone. Standing in complete opposition to Marx's teachings, Böhm-Bawerk was extremely careful to be fair to him as a person." *Gesammelte Schriften von Eugen von Böhm-Bawerk*, pp. xiii-xiv.

*Capital* itself.<sup>1</sup> The author is less well-known than the book, however, and it may be interesting as well as useful for our present purpose to review Hilferding's career before taking up his reply to Böhm-Bawerk, which was one of the earliest, if not actually the first, of his published writings.<sup>2</sup>

Hilferding was born in Vienna in 1877 of a well-to-do Jewish mercantile family. He studied medicine at the University of Vienna, but even during his student days his interests seem to have run more to the social sciences. He soon became a socialist and organized, along with Otto Bauer (later leader of the Austrian Socialists) and others, the first student socialist society.

Intellectually brilliant and personally attractive, Hilferding was not slow to gain the favorable attention of the leaders of the German-speaking socialist movement. In 1902 Kautsky invited him to become a regular contributor to *Die Neue Zeit*, the theoretical organ of the German Social Democratic Party. In 1906 he was asked by Bebel to go to Berlin to serve as an instructor in the party school there. He remained in this position about a year and then was chosen to be the foreign editor of *Vorwärts*, chief German Social Democratic newspaper. From this period on, he was prominent in the affairs of the German party, serving on its Central Committee and playing a leading part in its Reichstag delegation.

Meanwhile, in 1904, Hilferding and Max Adler had published in Vienna the first volume in a series entitled *Marx Studien* which was to provide an outlet for the younger Viennese socialist intellectuals. This first volume contained three studies, the second and third being by Josef Karner<sup>3</sup> and Max Adler.<sup>4</sup> The

<sup>1</sup> A translation of *Das Finanzkapital* is now in preparation and will be published by Augustus M. Kelley.

<sup>2</sup> For details and dates I have relied on Alexander Stein, *Rudolf Hilferding und die deutsche Arbeiterbewegung: Gedenkbücher*, published by the German Social Democratic Party in 1946.

<sup>3</sup> "Die Soziale Funktion der Rechtsinstitute." Josef Karner was a pen name used by Karl Renner, first Premier and later President of the Austrian Government after World War II.

<sup>4</sup> "Kausalität und Teleologie im Streite um die Wissenschaft."

first was Hilferding's *Böhm-Bawerk's Marx-Kritik* which is reproduced in this volume in the English of the well-known translators Eden and Cedar Paul.<sup>1</sup>

Hilferding's next and most substantial work, *Das Finanzkapital*, was likewise published as one of the *Marx Studien* series. It appeared in 1910; but, as Hilferding tells us in a preface (dated Christmas, 1909), it was finished in its main outlines "already four years ago"—that is to say as early as 1905. Hailed by Otto Bauer as "the book for which we have long been waiting," *Das Finanzkapital* won for its author the reputation of being the leading economist of the German-speaking socialist movement. Nor was recognition of the importance of Hilferding's book confined to Germany and Austria. Lenin was much influenced by *Das Finanzkapital*; and on the first page of *Imperialism*, he refers to it in the following terms: "In spite of the author's mistake regarding the theory of money, and in spite of a certain inclination to reconcile Marxism and opportunism, this work affords a very valuable theoretical analysis of 'the latest phase of capitalist development,' as the subtitle of Hilferding's book reads."

Entirely thought out and largely written before he had reached the age of thirty, *Das Finanzkapital* was Hilferding's last important contribution to socialist literature. He never wrote another book, and what he did produce during the last three decades of his life was mainly of a journalistic nature, possessing little lasting interest. When he undertook a more general theoretical analysis, as in his contribution to a two-

<sup>1</sup> *Böhm-Bawerk's Criticism of Marx*, by Rudolf Hilferding, translated from the German by Eden and Cedar Paul, Socialist Labour Press, Glasgow, no date. William Blake dates the English edition 1920 (*An American Looks at Karl Marx*, p. 672); and though I cannot confirm this date, I think it is probably correct. An advertisement in the back refers to "the late Karl Liebknecht," and this proves that it cannot have been published before 1919. The long translators' footnote (p. 143 below) indicates, on the other hand, that it was published before communication had been re-established between British and German socialists after the interruption of wartime.

volume symposium on capitalism in 1931,<sup>1</sup> he simply repeated, with hardly any change, the ideas of *Das Finanzkapital*.

When war broke out in 1914, Hilferding's strong pacifist and humanitarian leanings caused him to vote with the left wing of the German Social Democratic Party against war credits. The following year, however, he was drafted into the Austrian Army and spent most of the rest of the war years as a doctor on the Italian front, a fact which precluded his playing an active political role between 1914 and the Revolution of 1918. When he returned to Germany after the war he cast his lot with the Independent Social Democratic Party which had been formed in April, 1917, as a result of a split between the left and center socialists on the one hand and the right socialists on the other. Hilferding quickly rose to a position of leadership among the Independents, filling the important post of editor-in-chief of their newspaper *Freiheit*. He was never a real leftist, however, and when the issue of joining the new Communist International came up before the Halle Congress of the Independents (1920), he was one of the leaders of the minority which opposed the move. The Independents now split, the majority forming the bulk of the German Communist Party and the minority seeking to rejoin the Social Democratic Party. In 1922, after negotiations in which Hilferding took a prominent part, what remained of the Independent Party returned to the parent organization.

During the last ten years of the Weimar Republic Hilferding found his spiritual home in the right wing of the Social Democratic Party. He was generally considered the Party's leading thinker, edited its theoretical journal *Die Gesellschaft*, and twice held the post of Finance Minister in the Reich Government—once under Stresemann in 1923 and again under Müller in 1928-29. Looked at from any point of view, his record, like that of the Social Democratic Party itself, was one of unbroken failure. As Finance Minister he was equally ineffective in deal-

<sup>1</sup> "Die Eigengesetzlichkeit der kapitalistischen Entwicklung," in Volume I of B. Harms, ed., *Kapital und Kapitalismus*, Berlin, 1931.

ing with inflation in 1923 and with impending depression in 1929. But far more important than these specific failures was his general misjudgment of the post-war situation and his gross underestimation of the Nazi danger. As late as January, 1933, he wrote in *Die Gesellschaft* that the primary aim of the socialists was to fight the communists. Hilferding's attitude in these tragic days is dramatically illustrated by the following account, written by an acquaintance who was in contact with him at the time:

I remember distinctly having spoken to him a few days after Hitler was appointed Chancellor and asking him whether he thought that the time was ripe for the unions to call a general strike. Even then, in the first days of February 1933, he was sitting in a comfortable easy chair with warm felt slippers on his feet and remarked with a benign smile that I was a young firebrand and that political skill consists of waiting for the right moment. After all, he said, Hindenburg is still the President, the government is a coalition government, and while Hitlers come and go, the ADGB [the German trade union federation] is an organization that should not risk its entire existence for a fleeting political purpose. It was only a few days later that he was hiding at some friend's house being already sought by the Gestapo.<sup>1</sup>

Franz Neumann has justly remarked that "it was the tragedy of the Social Democratic Party and trade unions to have had as leaders men with high intellectual qualities but completely devoid of any feeling for the condition of the masses and without any insight into the great social transformations of the post-war period."<sup>2</sup> To none of the leaders does this apply with greater force than to Hilferding himself.

Hilferding escaped from the Gestapo in 1933, but unfortunately not for good. He went via Denmark to Switzerland, where

<sup>1</sup> From a personal letter, the writer of which prefers to remain anonymous.

<sup>2</sup> Franz Neumann, *Behemoth* (1942), p. 32.

he stayed until 1938, and then to Paris. When the Nazis took Paris he fled south and early in 1941 had completed arrangements to come to the United States. But just as he was about to board a boat at Marseilles he was picked up by the Vichy police and handed over to the Germans. The end came a few days later. One report says that he committed suicide in a prison cell, another that he was tortured to death by the Gestapo.

Looking at Hilferding's career as a whole, we can see that its creative phase was relatively short, being bounded by *Böhm-Bawerk's Criticism of Marx* at one end and *Das Finanzkapital* at the other. He was a person with the greatest of natural gifts whose vision was clouded and whose energies were stultified by easy success. But the ultimate tragedy of Hilferding's life—and surely the failure to fulfill great promise is always an individual as well as a social tragedy—must not be allowed to obscure the outstanding merit of the work which he did accomplish. His answer to Böhm-Bawerk and his study of finance capital will always remain among the classics of Marxian literature.

The significance of *Böhm-Bawerk's Criticism of Marx* is two-fold. On the one hand, it was the only full-scale reply to Böhm-Bawerk from the Marxian camp;<sup>1</sup> and on the other hand it is probably the clearest statement we have of the fundamental difference in outlook between Marxian economics and modern orthodox economics. I shall not deal here with Hilferding's refutations of Böhm-Bawerk's specific arguments, beyond pointing out that he gives a good account of himself and shows that even at the age of twenty-five<sup>2</sup> he could stand up and trade punches with so experienced and inveterate a polemicist as Böhm-

<sup>1</sup> Louis B. Boudin, *op. cit.*, answered some of Böhm-Bawerk's arguments but not in the systematic way that Hilferding did. Bukharin's *The Economic Theory of the Leisure Class* (originally published in 1919, English translation 1927) is an attack on the Austrian school rather than an answer to Böhm-Bawerk's attack on Marx.

<sup>2</sup> *Böhm-Bawerk's Criticism of Marx* was published in 1904 when Hilferding was twenty-seven, but the preface of the volume of *Marx Studien* in which it appeared explains that the manuscript was completed before the end of 1902.

Bawerk (it would hardly be unfair, I think, to describe *Capital and Interest* as one sustained polemic against all earlier theorists of capital and interest and also against all of Böhm-Bawerk's contemporaries who did not agree with him.) But I do want to call attention to what seems to me the most important contribution of Hilferding's work, its recognition and explicit statement of what divides the Marxist from the marginal-utility theorist; and I want to emphasize that Hilferding, by making his whole analysis turn around this difference in outlook, was in fact illustrating the difference in a concrete way.

Hilferding's work is divided into three parts: "Value as an Economic Category," "Value and Average Profit," and "The Subjective Outlook." While the first two parts are necessary to a full understanding of the third, it is in this last that he states the essentials of his case with greatest force and clarity. The crucial question, in Hilferding's view, is whether the individual or society is made the starting point of economics. If we start from the individual, as Böhm-Bawerk does, we are led naturally to consider the individual's wants in relation to the objects which satisfy them instead of "the social relationships of human beings one with another" (p. 133 below). "Such an outlook," according to Hilferding, "is unhistorical and unsocial. Its categories are natural and eternal categories" (p. 133 below). Marx, on the other hand, starts from society and is therefore led to consider labor as "the constitutive element in human society, as the element whose development determines in the final analysis the development of society" (p. 133). Thus it is "because labor is the bond uniting an atomized society, and not because labor is the matter most technically relevant, that labor is the principle of value and that the law of value is endowed with reality" (p. 134). Closely related to these different starting points is the fact that "in striking contrast with Böhm-Bawerk, Marx looks on the theory of value, not as the means for ascertaining prices, but as the means for discovering the laws of



motion of capitalist society" (p. 139). Hence for Marx, again in striking contrast with Böhm-Bawerk, the assumption that commodities exchange at their values "merely constitutes the theoretical starting point for a subsequent analysis" (p. 188). Hilferding's argument is excellently summed up in the following passage:

Whereas for Böhm-Bawerk, labor seems merely one of the determinants in personal estimates of value, in Marx's view the degree of productivity of labor and the method of organization of labor determine the character of social life. Since labor, viewed in its social function as the total labor of society of which each individual labor forms merely an aliquot part, is made the principle of value, economic phenomena are subordinated to objective laws independent of the individual will and controlled by social relationships, relationships of production, wherein commodities play the part of intermediaries, the social relationships being reproduced by these intermediate processes or undergoing a gradual transformation until they demand a new type of intermediation (p. 186).

It is characteristic of the marginal utility school that "Böhm-Bawerk has never become aware of this contrast of outlooks"<sup>1</sup> (p. 186). The closest he comes to such an awareness is in his discussion of the "objective" and "subjective" methods in economics; but in reality, according to Hilferding, "we are not concerned at all with two different methods, but with contrasted and mutually exclusive outlooks upon the whole of social life" (p. 187).

In my opinion this fundamental difference in outlooks cer-

<sup>1</sup> It should be added that Hilferding's criticism made no impression on Böhm-Bawerk in this or in any other respect. The only reference to Hilferding in the third edition of *Capital and Interest* (in German) occurs in a footnote in which Böhm-Bawerk says that "Hilferding's subsequently published [i.e., subsequent to *Karl Marx and the Close of His System*] apologetic counter-criticism has in no way caused me to change my views" (p. 396n).

tainly does exist; and the fact that Böhm-Bawerk does not, while Hilferding does, recognize its existence is itself a consequence of the difference. From Böhm-Bawerk's unhistorical and unsocial standpoint there is only one possible way of regarding economic phenomena. Hence, as I pointed out above, he takes it for granted that Marx must be trying to do the same things that he, Böhm-Bawerk, is trying to do. On the other hand, from Hilferding's historical and social standpoint it is quite natural that the defenders of capitalism should look at the system, which they consider to be the only possible system, differently from its critics who proceed on the assumption that all social systems have a transitory character.

This situation, it must be admitted, makes it extraordinarily difficult for the two schools of economics to communicate intelligently with each other. One holds firmly to the view that their respective theories must be judged by the same standards, while the other is equally insistent that they cannot be. Thus, Böhm-Bawerk regards Marxian theory as simply wrong, while Hilferding regards Böhm-Bawerkian theory as irrelevant to the crucial developmental tendencies of the capitalist system.

I doubt whether this difficulty can be overcome; but it can at least be recognized, and those who recognize it should be better able to clarify their own position to themselves and to others. It is certainly not the least merit of Hilferding's work that it not only expounds the Marxian view but also states the difference between the Marxian and the orthodox views with unexampled lucidity.

#### BORTKIEWICZ ON THE TRANSFORMATION PROBLEM

BOTH Böhm-Bawerk and Hilferding devote much attention to the relation between the first and third volumes of *Capital*. Böhm-Bawerk argues that the theory of value in the first vol-

ume is in flat contradiction to the theory of "price of production" in the third, while Hilferding holds that price of production is merely a *modification* of value and hence that the two theories are logically related and in no sense contradictory. The nature of their views and of the disagreement between them was such that neither Böhm-Bawerk nor Hilferding was moved to examine critically the actual procedure which Marx used in transforming values into prices of production. Böhm-Bawerk believed that the mere fact of a difference between value and price of production was enough to deprive the whole operation of any interest, while Hilferding was concerned to answer Böhm-Bawerk's argument and not to defend Marx's procedure. And yet there is a very real problem here.

According to the theory of Volume I, commodities exchange in proportion to the quantity of labor (stored-up and living) embodied in them. Surplus value (or profit), however, is a function of the quantity of living labor alone. Hence, of two commodities of equal value one with relatively more living labor will contain more surplus value than one with relatively more stored-up labor; and this implies that equal investments of capital will yield different rates of profit depending on whether more or less is put into wages (living labor) on the one hand or material accessories (stored-up labor) on the other. But this theory contradicts the obvious fact that under capitalism equal investments, regardless of their composition, tend to yield equal profits.

In the first two volumes, Marx ignores differences in the composition of different capitals; in effect, he assumes that such differences do not exist. But in Volume III he drops this assumption and, recognizing the tendency to general equality in the rates of profit, inquires how the resulting "prices of production" are related to the values of Volume I.

Marx works this relation out by starting from a value scheme in which the composition of capitals varies, with a consequent

multiplicity of profit rates. He now takes the average of these profit rates and calculates prices of production by the following formula:

$$c+v+(c+v)p=\text{price of production}$$

where  $c$  represents the investment in plant and materials,  $v$  the investment in wages, and  $p$  the average rate of profit.

Now there is undoubtedly a flaw in this method. The two items  $c$  and  $v$  are taken over from the value scheme and remain unchanged in the price of production scheme. In other words, input is measured in values while output is measured in prices of production. Obviously this is not right. A large part of today's output becomes tomorrow's input, and it is clear that, to be consistent, they must be measured in the same terms. Marx himself was aware of the difficulty,<sup>1</sup> and it is not unlikely that he would have dealt with it if he had lived to complete the third volume. But, as it stands, the treatment of the relation between the values and prices of production is not logically satisfactory.

Böhm-Bawerk obviously did not see this problem at all. It is true that he regarded the whole operation of transforming values into prices of production as pointless, but a skilled debater does not ignore a detected weakness in his opponent's argument simply because he considers the argument to be futile. Hilferding, on the other hand, seems never to have questioned the soundness of Marx's procedure. Indeed this is not surprising. Earlier Marxist writers had taken it for granted, and no hostile critic had called it in question.

It was left for Bortkiewicz, in the paper included as an appendix to this volume, to take up the problem and to attempt to solve it within the framework of the Marxian theory of value and surplus value.

Ladislaus von Bortkiewicz is known primarily as a statistician. In an obituary which appeared in the *Economic Journal* (June, 1932), Professor Schumpeter called him "by far the most

<sup>1</sup> See my book *The Theory of Capitalist Development*, pp. 115-116.

eminent German statistician since Lexis,"<sup>1</sup> and I think nothing has occurred in the meanwhile to make this judgment less valid today than it was in 1932. In the opinion of Oscar Anderson, himself a mathematical statistician of distinction, Bortkiewicz was "one of the few really great men in the field of mathematical statistics."<sup>2</sup> This high reputation as a statistician has not unnaturally tended to divert attention from Bortkiewicz's contributions to economics; and an additional reason for his relative obscurity as an economist lies in the fact that the most significant of these contributions took the form of critiques of the theories of others. But if it be granted that the function of criticism is important in its own right, then it can hardly be denied that Bortkiewicz deserves a place among the top-flight economists of the early twentieth century.<sup>3</sup>

It is not easy to classify Bortkiewicz's economics. Professor Schumpeter says that Bortkiewicz professed "the Marshallian creed," but this probably refers to the later period of his life and to his teaching rather than to his writing. At any rate there is little evidence of Marshallian influence in his papers on Marx,<sup>4</sup> and it is with these that we are primarily concerned.

<sup>1</sup> Wilhelm Lexis (1837-1914) was Bortkiewicz's teacher. It is not strictly accurate to call Bortkiewicz a German though he lived more than half his life in Germany and did all his scientific work there. He was born in St. Petersburg in 1868 of a Russified Polish family and attended the University of St. Petersburg. He went to Germany to do advanced work and stayed on as a teacher. He was appointed to a position at the University of Berlin in 1901 and remained there until his death in 1931. He was always a rather distant and isolated figure, remaining somewhat of a foreigner even after thirty years' residence in Germany.

<sup>2</sup> Obituary in the *Zeitschrift für Nationalökonomie*, Vol. III, No. 2 (1932). This obituary contains the only comprehensive bibliography of Bortkiewicz's works with which I am acquainted.

<sup>3</sup> Aside from his papers on the Marxian system, about which more will be said presently, Bortkiewicz produced notable critiques of Pareto and Böhm-Bawerk. (All the relevant articles are listed in the obituary by Oscar Anderson, cited in the preceding footnote; they can be readily identified by their titles.) In my opinion, Bortkiewicz delivered the *coup de grâce* to Böhm-Bawerk's celebrated theory of interest.

<sup>4</sup> Nor, I might add, in his analyses of Pareto and Böhm-Bawerk.

Judging from these papers, it seems to me that Bortkiewicz must be described as a modern Ricardian. The powerful impress of Ricardo's thought is evident throughout, and Bortkiewicz was at great pains to defend Ricardo against what he considered to be unjustified criticism.

A faithful Ricardian in Bortkiewicz's time could not but have an ambivalent attitude toward both of the important contemporary schools of economic thought. In fundamental social outlook and aims he was in agreement with the subjective value school and opposed to the Marxian school. On the other hand, acceptance of the labor theory of value necessarily brought him into conflict with many of the most important doctrines of the subjective value theorists and gave him much in common with Marxian ideas. This peculiar mixture of sympathies and antipathies is altogether characteristic of Bortkiewicz's economic writings and goes far, I suspect, to explain their strikingly original and stimulating quality.<sup>1</sup>

Bortkiewicz's attitude toward Marx had four facets. Where Marx agreed with Ricardo, Bortkiewicz tended to approve. Where Marx disagreed with Ricardo, Bortkiewicz tended to defend Ricardo. Where Marx departed altogether from Ricardo, as in the whole theory of capitalist development, Bortkiewicz was either uninterested or uncomprehending. And finally, where Marx pushed further along trails which Ricardo had blazed, Bortkiewicz was a sympathetic and constructive critic. It is in this last connection that Bortkiewicz took up the problem of value and price in the Marxian system.

The Ricardian system involves a highly original and at the same time paradoxical line of reasoning. Starting from the labor theory of value, Ricardo stumbled upon the theory that profit is a deduction from the product of labor. But given the existence

<sup>1</sup> It probably also has a good deal to do with his neglect as an economist. Both schools tended to regard him as an unfriendly outsider. Under the circumstances no one was interested in disseminating his ideas or in building up his reputation.

of profit, and assuming capitals of different durability or turn-over time, Ricardo proceeded at once to demonstrate that the result is exchange ratios (prices) which no longer conform to the requirements of the labor theory of value. In other words, the labor theory of value forms the starting point for a chain of reasoning which leads to conclusions at variance with the labor theory of value.

Now the question at once arises: Is this a legitimate procedure? Does it lead to valid results, or is it self-defeating? Ricardo never attempted to answer these questions; he was content to take the validity of his results for granted.

For a strict logician like Bortkiewicz this must have been a very unsatisfactory state of affairs. He was convinced of the correctness of Ricardo's theory of profit (which he called the "deduction theory"), but he could not help recognizing that the reasoning which supported it was incomplete and unsatisfactory. There was no rational explanation in the Ricardian system of the relation of "values" to "prices" or of the role of profit in mediating between them. Under these circumstances, it is quite understandable that Marx's explicit posing of this problem and attempt to solve it in Volume III of *Capital* claimed Bortkiewicz's careful attention and even seemed to him to be Marx's outstanding contribution to economic theory.<sup>1</sup>

Bortkiewicz wrote two papers on Marxian economics: "Wertrechnung und Preisrechnung"<sup>2</sup> and the article which is printed below, "On the Correction of Marx's Fundamental Theoretical

<sup>1</sup> "It must not be overlooked," he wrote, "that the originality of the [Marxian] system consists primarily in the juxtaposition of value calculation and price calculation, and in the derivation of prices from values and of profit from surplus value; by comparison the other peculiar features of the system are of secondary importance." "Wertrechnung und Preisrechnung im Marx'schen System," Part III, *Archiv für Sozialwissenschaft und Sozialpolitik*, September, 1907, p. 481. This is the final installment of a long paper. The first two parts appeared in the same journal for July 1906 and July 1907. It will be referred to in the text as "Wertrechnung und Preisrechnung."

<sup>2</sup> See preceding footnote. I hope to be able to publish an English translation of this work sometime in the future.

Construction in the Third Volume of *Capital*." It is obvious from the titles that both are centered around the problem of the relation between values and prices, and it is also clear from their respective publication dates that they were, so to speak, joint products of a period of intensive study of Marx and his critics.<sup>1</sup> The fact that they were published separately and in different journals, however, shows that Bortkiewicz regarded them as independent works each of which could stand on its own feet.

"Wertrechnung und Preisrechnung" is much the more ambitious and general of the two. It includes an elaborate examination of earlier criticisms of Marx (from which, incidentally, the critics, including Böhm-Bawerk, emerge with little glory), a discussion of the flaw in Marx's method of transforming values into prices of production, and a reconsideration of this problem in terms of an equational system (attributed by Bortkiewicz to the Russian economist W. K. Dmitrieff) which conforms to Ricardian theory more closely than to Marxian theory. It does not, however, attempt to solve the transformation problem as Marx himself presented it. It was to this task that the article included in the present volume was specifically directed.

It is not my purpose in this introduction to analyze the method which Bortkiewicz substitutes for Marx's. Whatever may be thought of it today, and of the corollaries which Bortkiewicz drew from it, there can be no question that it was the first attempt to solve the problem and thus forms the actual starting point for all subsequent work on the subject. Moreover—and this is something which many Marxists tend to overlook—the aim of the article, and in my judgment its effect as well, was not to attack Marxian theory but to vindicate it. Most previous (and, for that matter, subsequent) critics considered the theory of value and surplus value to be the Achilles' heel of the Marxian system. Bortkiewicz almost alone regarded it as Marx's most important contribution. By eliminating relatively

<sup>1</sup> The article included below appeared in July 1907, the same month in which Part II of "Wertrechnung und Preisrechnung" was published.



superficial errors he hoped to be able to show that the core of the system was sound. No serious student of classical-Marxian political economy can, I submit, afford to neglect Bortkiewicz's reasoning.

I do not want to be interpreted as making extravagant claims for Bortkiewicz. When I undertook to write a general introduction to Marxian economics,<sup>1</sup> I found Bortkiewicz's treatment of the transformation problem to be the most complete and satisfactory available. In order to show that the error in Marx's method is without importance for the theoretical system as a whole, I reproduced in summary form Bortkiewicz's solution of the problem. For the rest I discussed the *significance* of the problem rather than the *method* of solving it. My discussion fortunately called the problem to the attention of others better equipped than I to deal with its mathematical aspects. Their work, some of which has been published<sup>2</sup> (with more, I hope, to follow), has convinced me that Bortkiewicz's method of transforming values into prices, while unobjectionable as far as it goes, is mathematically clumsy and is based on unnecessarily restrictive assumptions. I also suspect that most of Bortkiewicz's corollaries are connected in one way or another with assumptions of this kind or, as Kenneth May suggests, flow from a confusion on Bortkiewicz's part between the failure of certain relations to appear in his mathematical formulas and their absence from the real phenomena which the formulas only partially reflect.

<sup>1</sup> *The Theory of Capitalist Development* (1942).

<sup>2</sup> Maurice Dobb, in a review in *Science and Society* (Summer, 1943), was the first to raise questions. It was Dobb also who stimulated J. Winternitz to a mathematical reconsideration of the transformation problem. A very brief summary of Winternitz's results appeared in the *Economic Journal* for June 1948 under the title: "Values and Prices: a Solution of the so-called Transformation Problem." I hope the entire paper on which this summary is based will eventually be published. A valuable commentary on Winternitz, which throws new light on several aspects of the controversy, appeared in the December 1948 issue of the *Economic Journal*: "Value and Price of Production: a Note on Winternitz' Solution," by Kenneth May.

It is to be hoped that the discussion which has now been begun will lead to a more or less definitive solution of the transformation problem and its implications. If the publication in English, and in readily available form, of Bortkiewicz's original essay on the subject contributes to that end I shall regard it as fully justified.

As editor of these works I have in general confined my efforts to making them more readable and more usable to present-day teachers and students of the social sciences. Style and spelling have been rendered uniform throughout. All quotations from *Capital* now refer to the Kerr edition, though the wording (except in the case of Hilferding's quotations from Volume III) remains that of the translators of these works. The translations themselves have been altered in a few places which were unclear, or ambiguous, or dated, by checking back to the German originals. For example, Miss Macdonald's translation of *Arbeitskraft* as "working powers" has everywhere been replaced by the more familiar "labor power." All references in Hilferding to Böhm-Bawerk have been given the page numbers of the present volume. Several of Eden and Cedar Paul's translators' notes to Hilferding remain and are identified by their initials. (See especially the long note on pp. 143-144 where the Pauls enter into a debate with Hilferding; in my judgment, Hilferding is perfectly correct in his interpretation of Marx at this point, but he did overlook a change in wording between the second and third editions which should have been taken into account.)

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Wilton, N. H.