

The Social Philosophy of Karl Marx

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THE SOCIAL PHILOSOPHY OF KARL MARX

ABRAM L. HARRIS

SINCE the early part of the nineteenth century there has been an increasingly articulate if not growing criticism of the politicoeconomic system popularly thought of as "capitalism." Such criticism belongs to and draws upon an ancient and powerful tradition of utopian thought and social protest, a tradition including such diverse ideas or doctrines as the Platonic distinction in every city between the two cities, that of the poor and that of the rich, the Christian suspicion of the rich and concern with the poor and the oppressed, Augustine's invidious distinction between the City of Man and the City of God, and Rousseau's contrast between man's natural state of freedom and goodness and the artificial social institutions by which men are everywhere kept in chains. That in the modern period there should be a widespread feeling that the existing order is unnatural, artificial, un-Christian and inhuman, contaminated by selfishness, and grossly perverted from its proper orientation to justice, righteousness, and virtue—this feeling attests the vitality of the ancient tradition and reflects man's perennial necessity for projecting in dramatic form on the current social scene the opposition between good and evil.

What is novel in our time is the as-

similation of this critical tradition to a diagnosis of present problems and a consequent translation of evil in general into specific evils designated in relation to the characteristic institutions and organization of modern society. Such specific criticism of capitalism seems to have been expressed primarily in three beliefs: (a) that capitalism does not attain the ends which society should attain (cf. Veblen's opposition between business enterprise and technological or engineering requirements and Tawney's contrast between the acquisitive society and the functional society) or, if capable for a time of attaining social ends, is unstable (cf. the various doctrines about the eventual "breakdown" of capitalism); (b) that capitalism involves an unjust or wrong distribution of power (cf. the voluminous literature asserting in one way or another that we must have economic as well as political democracy); and (c) that under capitalism the worker is exploited (cf. the innumerable pointed references to inequalities of income and wealth, to unearned increment, to poverty in the midst of plenty, to monopoly profits). The translation of these beliefs into social policy is frequently mediated by the conviction that capitalistic society is characterized by a conflict of interest between workers and capitalists which ne-

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cessitates class conflict in the form of violence or a semiviolent struggle between pressure groups or at least political opposition.

The doctrines of Marx, in which all these beliefs are forcefully developed and presumably given a "scientific" foundation, have become the most prominent expression of discontent with the existing order. Though certainly not the source of the indicated beliefs, the Marxian system has nevertheless had an immense influence in furnishing an ideology and language in which they were shaped and expressed. This ideology and language have been used by many men to articulate varied discontents and by other men to rationalize or defend doctrines or programs favored on other grounds. The use of the Marxian ideology has not been confined to people who have read the writings of Marx or who regard themselves as his followers. On the contrary, most of the users of the Marxian ideology have probably no firsthand acquaintance with the Marxian writings; and many people certainly have assimilated at least part of the Marxian ideology and language without recognition of the source. As a matter of fact, Marxian doctrines have been spread mainly by a process of hearsay and echoing which has helped to merge them with other social lore and to make them public property.

I do not wish to ascribe all anticapitalistic doctrines to a historical source in Marx or to investigate at all the problem of historical relations. The important fact, for present purposes, is that in modern thought we can easily discern a family resemblance within a group of social doctrines widely distributed and accepted and that the doctrine of Marx constitutes the best example of the pure type in which all the family characteristics are present in accentuated and strik-

ing fashion. Some study of Marx is helpful in understanding other doctrines in the same family, even in the case of doctrines which have only a faint trace of the family characteristics.

It should be emphasized, moreover, that all these doctrines, despite their important differences, raise more or less the same problems in regard to the description of modern civilization and the diagnosis of its problems. The opposition between the social philosophies of Russia and the United States poses in dramatic form problems which in less dramatic fashion pervade political thinking in the United States and Great Britain, problems which color the discussion of both domestic and international issues. These problems are economic only to a limited extent. They are concerned with the question of how economic life can be most efficiently organized in order to enhance the material welfare of the individual; but behind this question there seems to be another, more fundamental one, and that is: What kind of society is most conducive to the realization of individual freedom, to the development of human personality, and to the attainment of other basic values?

These questions might be and sometimes are discussed in abstraction from description of contemporary society; but frequently, especially in popular discussion, they are approached through a characterization of current institutions. It is, of course, notorious that the characterization or description given by defenders of the existing order differs widely from that given by critics; and one suspects that both the defense and the criticism are "loaded" with preconceptions or assumptions about the actual facts of contemporary society. With the preconceptions of defenders of the capitalist system I am not here concerned.

With regard to the characterizations of present society which appear most frequently in the criticisms of capitalism I would say that such characterizations are represented in the doctrines of Marx and that, since Marx attempts to give them a reasoned foundation, an examination of Marx's argument gives us some basis for evaluating a number of the assumptions associated with criticism of capitalism.

One of my convictions is that an essential condition for settling political conflicts as well as for arriving at sound policy decisions is the attainment of accurate knowledge and understanding of the actual working of our social and economic institutions. In this essay my first purpose has been to give a precise exposition of Marx's account of capitalistic society, and then I have attempted to judge critically the extent to which this account constitutes a judicious description or correct analysis. With the question of whether his evaluation of capitalism and his revolutionary program are morally justified I have not dealt except in so far as these matters are dependent on the correctness of his description and analysis.

MARX AND THE BACKGROUND OF HIS IDEAS

To millions the name of Marx inspires the hope of a new and better society. To others the name only conjures up the image of a mad prophet who in his fanaticism to rid the world of its social evils would destroy the world in the process.

Marx's chief work, *Capital*, has been called the bible of the workingclass. This working-class bible is in some respects similar to the Bible of Christian-

ity. There are many who believe it to contain the only true gospel of social salvation; but only a few of the believers have read it, and, of the few who have, even fewer have understood it. Marx was the author not only of *Capital* but also of numerous other works some of which, like *Theorien über den Mehrwert*, have as yet to be translated into English. His major works are supplemented and illuminated by a vast correspondence with Engels, his lifelong associate, and with others much less intimate than Engels but in some way connected with the propagation of proletarian socialism. The explanations of what Marx said and meant are legion and conflicting. There is hardly another figure in history, if we exclude Jesus Christ, about whom so much has been said and around whom such bitter doctrinal controversies center. The doctrinal controversies have been far more extensive and acrimonious among the followers of Marx than among his theoretical critics. Doctrinal differences, including questions of tactics of class struggle as well as those concerning the meaning of abstract principles, have divided the followers of Marx into sects each claiming to represent the true faith and each a bitter foe of the other. In the present study it is not my intention to discuss or to follow any of these numerous interpretations. I wish particularly to avoid any discussion of the official interpretations, which stem, on one side, from the Social Democrats and, on the other side, from the Communists—Lenin, Trotsky, and Stalin. I wish, above all, to avoid any reference to questions concerning the application of Marx's principles in the Soviet Union. What I intend to give is a concise and, I hope, an unbiased account of Marx's ideas based upon my study of his works.

FAMILY BACKGROUND AND EARLY
INFLUENCES

Karl Heinrich Marx was born of a well-to-do Jewish family in Germany in 1818. The parents, Herschel and Henrietta (nee Pressburger) Marx, descended, we are told, from "countless generations of rabbis." Two years before the birth of Karl, his second and favorite child, Herschel Marx was baptized into the Established Evangelical Church of Prussia and there upon changed his name to Heinrich. Eight years later all seven of the children, including Karl, were similarly baptized into the Protestant Christian faith. Why the elder Marx chose to change his religion is something of a puzzle. In spite of his rabbinical ancestry and his later conversion to Christianity, he remained a free thinker and a spiritual heir of the Anglo-French Enlightenment. It is true that it was only in 1812, just six years before the birth of Karl, that Prussian Jews were granted full civic equality by the famous Emancipation Edict. There is nothing, however, to indicate that Heinrich Marx, a highly respected jurist in his native Trier, was under any sort of compulsion, either professional or social, to adopt the Christian faith. Though deeply attached in their affection, Heinrich and Henrietta Marx, it appears, never saw eye to eye on religious matters. The cause of Henrietta Marx's final conversion to the Gentile religion is even more puzzling than that of her husband. She did not participate in the baptismal ceremony of her children, but it was only a year later that she too became a Christian.

Whether the mother's apparent religious devotion and the father's evident irreligion created some sort of tension in the life of their son is a question on which we can only speculate. According to Werner Sombart, the Marxes were a

"highly cultivated Jewish-ghetto family." The mother, a native of Holland, never learned to speak correct German. The father and, likewise, the son, Sombart states, were "disequilibrating" personalities—that is to say, they felt insecure in social status. And Sombart goes on to contend that this status insecurity of the family predisposed the son to a rebellious frame of mind.¹ Another writer, on the basis of reported conversations between the youthful Marx and his father, contends that the son inherited

one of those curious brains which develop under the discipline of rabbinical learning. . . . Heinrich Marx could not fail to recognize that this kind of brain was inherited. It was clear from the nature of Karl's questions and arguments, from the very quality of his ideas, the way he twisted them, fused them, played with them. Before his father's eyes arose again the spirits of those old men as he had seen them so often, sitting over their books. In a miniature edition there appeared again all the artistry of their staggering arguments. . . . Later he had found that this was not true of the Jewish Talmudists only. They had their counterparts in all religions. The Christian Scholastics, who debated endlessly whether one, two or several angels could stand on the point of a pin, were equipped with exactly the same kind of mind.²

Why nature failed to give the father the same sort of brain that it gave the son is a question that this writer leaves unanswered. This, and likewise Sombart's "psychoanalytical" interpretation of Marx's personality, is based upon speculation of the most impressionistic sort. I mention these views only because so much stress has recently been placed, particularly by some German writers, on Marx's Jewish background as a factor in the development of his revolutionary ideas. The fact is that we know virtually

¹ Werner Sombart, *Der proletarische Sozialismus* (Jena, 1924), p. 60.

² Leopold Schwarzschild, *The Red Prussian* (New York, 1947), pp. 9-10.

nothing of the effect, if any, of Marx's family background upon the formation of his personality.

Now, it is of course true, as a number of writers have pointed out, that in many respects the world view contained in Marx's teaching closely resembles that of Judaeo-Christianity.³ The ideas of a universal community of mankind and of an organic society as well as the belief that common people are more virtuous than the rich and powerful are characteristic elements in the teaching both of Marxism and of Judaeo-Christianity. There is, however, not a shred of evidence that Marx's thinking was in any way directly influenced by a specifically Judaic-Christian social ethic. It was another descendant of the Jewish race, Moses Hess,⁴ who found in Judaic-Christian universalism the source of "true socialism," which, incidentally, Marx later polemicized. Hess is credited with Engel's conversion to socialism, but his influence upon Marx was nil although he and Marx were briefly associated in journalistic ventures. Marx's thinking was shaped by influences peculiar to the intellectual and social environment of Germany in the first two quarters of the nineteenth century.

Of these influences, the Hegelian philosophy and the reaction of Young Hegelians to it were crucial in the development of Marx's thought.

MARX, THE EXPONENT OF A THEORY OF SOCIOECONOMIC EVOLUTION

Marx's contribution to social thought did not consist in developing or in improving traditional economic theory. By traditional economic theory I mean that

³ See, e.g., John Macmurray, *Creative Society* (London, 1935).

⁴ Theodor Zlocisti, *Moses Hess* (Berlin, 1905), p. 18.

body of principles developed by the so-called "classical" and "neoclassical" school of economics which, originating in the works of Adam Smith in the late eighteenth century, was further advanced in the nineteenth century by David Ricardo and others, and later by Alfred Marshall. This assertion calls for some defense, which I regret I am unable to supply here. I make it simply to emphasize my opinion that, although Marx's economic ideas were influenced by the early classical economists, particularly by David Ricardo, his contribution lies essentially outside the peculiar domain of traditional economic theory. Marx, in my opinion, is to be considered mainly as the author or exponent of a theory of economic evolution which in its broad ramifications has to be looked upon as a theory of historical progress or social change. But Marx was not only a social thinker and an analyst. He was also a revolutionary leader, a sort of political Jeremiah come to judge the present and to predict the future. His work on this account has to be evaluated in a twofold manner—from the standpoint of the interests of a passionate revolutionary who sought actively to change the world and from the standpoint of the interests of a scientific theorist.

GENERAL FEATURES OF MARX'S THEORY OF SOCIAL DEVELOPMENT

Marx's theory of social development applies mainly to the capitalistic organization of society. It aims to give a scientific explanation of the genesis of this type of economic organization, its structure, its transformation, and its final replacement by a socialist and "higher" form of organization.

Marx's analysis of capitalist production is pivoted upon several closely related doctrines and propositions. They

are as follows: (1) the economic interpretation of history, referred to sometimes as “dialectical or historical materialism” and sometimes simply as the “materialist conception of history”; (2) the expropriation of labor from the land and other means of production, which results in the formation of proletarian and capitalist classes; (3) the doctrine of the exploitation of labor, which is interrelated with two other theories, the labor theory of value and the theory of surplus value; (4) the accumulation and the concentration of capital; (5) the overexpansion and contraction of capital which leads to cycles of business prosperity and depression and to the unemployment of human as well as of technical resources; (6) the tendency of society under the impact of changes within the economic system to divide into two mutually hostile classes, workers, on the one hand, and capitalists, on the other; (7) the thesis of the disappearance of the middle class; (8) the theory of increasing misery (*Verelendungstheorie*); and (9) the disintegration and collapse of capitalism. In a general and somewhat simplified form all these doctrines and propositions are stated in the *Communist Manifesto*, published jointly by Marx and Engels in 1848. But when one studies Marx’s major works, *Capital*⁵ in particular, one is likely to see these doctrines in a light somewhat different from that in which they appear in the *Manifesto*’s⁶ simple and dramatic presentation. This, as we shall see, is especially true of the doctrine of increasing misery and the thesis of the disappearance of the middle class.

⁵ *Capital*, I (Chicago, 1906); II (Chicago, 1909); and III (Chicago, 1909). All references are to these editions.

⁶ The edition of the *Manifesto* used in the present work is contained in *Capital and Other Writings of Marx*, ed. Max Eastman (New York, 1932).

THE ECONOMIC INTERPRETATION OF HISTORY

As I have already stated, the terms “economic interpretation of history,” “dialectical materialism,” and the “materialist conception of history” are interchangeable. One of the important questions we shall have to consider in the course of this study is the sense in which the theory is held to be “dialectical” and “materialistic.” But, first, something should be said as to what the theory is not. The theory does not state that human conduct is motivated by personal economic interests or by gain in the sense in which it is typically associated with market activity. To the extent that economic interests come into the picture, they are the interests of classes as shaped by the economic constitution of society. The theory in no way denies that in given situations men may act wholly unconscious of their economic interests and at times contrary to what these interests dictate.

What, then, does the theory state? According to Marx:

In the social production which men carry on they enter into definite relations that are indispensable and independent of their will; these relations of production correspond to a definite stage of development of their material powers of production. The sum total of these relations of production constitutes the economic structure of society—the real foundation, on which rise legal and political superstructures and to which correspond definite forms of social consciousness. The mode of production in material life determines the general character of the social, political and spiritual processes of life. It is not the consciousness of men that determines their existence, but, on the contrary, their social existence determines their consciousness.⁷

What Marx says here is simply this, that the economic organization is the foundation of life in society and that, as

⁷ Karl Marx, *A Contribution to the critique of Political Economy* (Chicago, 1904), p. 11.

such, men's conceptions, thoughts, spiritual intercourse, law, and morality emanate directly from this foundation. Or, as he puts it, "the production of ideas, conceptions, and consciousness, is first of all, directly interwoven with material economic activity."

Two questions should be raised at this point. They are: (1) What does Marx mean by the economic organization, that is, of what does the economic organization consist? (2) Why is the economic organization so crucially important in his analysis of social progress?

The economic organization in Marx's meaning consists of the following: a mode of production, a mode of exchange, and a mode of distribution.

In Marx's view, a mode of production, in its universal meaning, is a labor process by means of which man unites his powers with those of nature in order to maintain his life. According to Marx the elementary features of any mode of production are, then, the personal activity of man, the physical resources supplied by nature, and the various tools or instruments invented by man. The two main factors in the process are man and his productive instruments. All productive instruments, except virgin land, are, according to Marx, the tangible embodiment of man's physical and intellectual powers.

Now the character of the mode of production varies according to time and place. The various modes of production have thus to be distinguished first by the character of the tools employed—whether, for example, production is carried on by means of simple instruments characteristic of a handicraft stage or whether it is conducted by means of advanced technology as under capitalistic arrangements. If, however, the character of the instruments of production were the

only criterion by which Marx distinguished different modes of production, his theory would certainly be technological, as Professor Hansen and others have insisted. I mean by this that Marx would have based his explanation of the formation of society and of its changes on the character of the tools and the type of power employed in given societies. This he did not do, for what is of greatest significance in Marx's analysis of the mode of production is how the tools are owned—whether by self-employed workmen or by private capitalists by whom the workers are employed and directed. According to Marx the tools or instruments of production, while always the embodiment of labor, became capital only under certain specified conditions. He insists that it is the manner in which the tools of production are owned as well as the use of scientific technology that distinguishes the capitalist from other modes of production. Furthermore, where the capitalist mode of production is found, society tends to be stratified into owning and nonowning classes. In Marx's view another mode of production would result in a different class stratification.

Finally, different modes of production are accompanied by different modes of exchange and distribution. The conditions of exchange may be those in which goods are produced for the direct consumption of the immediate producers, or they may be those under which the goods are produced for distant and remote places, that is, bought and sold in markets. The conditions of exchange may further involve the purchase and sale of labor. The hire and sale of labor in the sense in which it is a peculiar market phenomenon does not occur in a system of slavery nor under peasant proprietorship.

Closely related to the condition of ex-

change is the method of distribution. The method of distribution involves the rules according to which the total output of society, the social income, is divided among the producing classes. Where, for example, the means of production are owned by private capitalists and where, also, the services of human beings (labor) are bought and sold in markets, the social income is divided, according to the rules of the game, into wages, interest, profit, and rent or, as Marx would say, into wages and surplus value. Surplus value, as Marx defined it, would comprise the interest, rent, and profit.

The second question, as to why the economic organization is crucially important in Marx's analysis, may now be taken up. At this point we should recall that in Marx's view the mode of production, however organized, whether by capitalistic or other methods, is simply a labor process, that is, the mode of production is but the organization of man's "productive activity." This "productive activity," he states, "is a necessary condition, independent of all forms of society, for the existence of the human race; it is an eternal nature-imposed necessity, without which there can be no material exchanges between man and Nature, and therefore no life."⁸ Thus in Marx's view the economic organization expresses this "productive activity" and is, accordingly, the primary condition of life. But Marx attaches this importance to the economic organization not simply because it maintains physical existence. He states:

The manner in which human beings produce their means of life is not merely to be considered from the standpoint . . . that it involves the reproduction of physical existence of . . . individuals. It is rather a definite kind of activity of these individuals, a definite manner of expressing their life, a definite manner of life of

⁸ *Capital*, I, 50.

the individuals [themselves]. As the individuals express their lives, so are they. What they are, thus coincides with their production, as much as with what they produce, and how they produce it.⁹

WHY THE ECONOMIC INTERPRETATION IS CALLED
MATERIALISTIC AND DIALECTICAL

Marx did not use the term "materialism" "in the sense of reducing social phenomena causally to terms of the non-human environment," such as natural resources and biological heredity or some combination of both.¹⁰ Marx, of course, considered the physical environment to be of great importance in the evolution of society. For example, he states:

It is not the tropics with their luxuriant vegetation, but the temperate zone that is the mother of capital. It is not the mere fertility of the soil, but the differentiation of the soil, the variety of its natural products, the changes of the seasons, which form the physical basis for the social division of labor, and which, by changes in the natural surroundings, spur man on to the multiplication of his wants, his capabilities, his means and modes of labor.¹¹

But after thus emphasizing the significance of physical environment in economic life, he goes on to state that "favourable natural conditions alone give us only the possibility, never the reality, of surplus-labor, nor, consequently, of surplus-value and a surplus-product."¹² In brief, he contends that the conditions of the physical environment cannot be taken as *the* basis for explaining the rise and development of the capitalistic social organization. Nor can these conditions be looked upon as supplying the dynamic of history or of social changes.

⁹ Karl Marx and Friedrich Engels, "Die deutsche Ideologie," *Gesamtausgabe*, ed. V. Arodatsky (Berlin, 1932), Part I, V, 10-11.

¹⁰ Talcott Parsons, *The Structure of Social Action* (New York, 1937), p. 490.

¹¹ *Capital*, I, 463-65.

¹² *Ibid.*, pp. 563-65.

The dynamic of history, Marx maintains, is to be found in the conditions of man's material existence which, institutionalized into modes of economic production, distribution, and exchange, determine the social relations in which human beings act, think, and have their being. This conception of materialism was developed by Marx in opposition to the materialism of natural science which, stemming from Newton and Descartes, had come to exert a controlling influence upon the ideas of his erstwhile associates, the Young Hegelians—Bruno Bauer and Ludwig Feuerbach among others. Marx, however, developed his conception of materialism not only in opposition to the views of the Young Hegelians but also in opposition to those of Hegel. But while he vigorously combatted Hegel's philosophical idealism, he retained Hegel's dialectical method, which for him was the precious pearl of wisdom in Hegel's system.

What is the meaning of dialectic or dialectical method? As originally employed, "dialectic" simply meant the art of conversation. It was used by the Greek philosophers as a technical term for a formal discussion carried on under the rules of logical procedure:

As a method for discovering truth it was perfected by Socrates and carefully defined by Plato. . . . To any discussion there are two parties. The first is required to state an opinion, which becomes the subject of discussion. This position is the thesis. It is then the business of the second person to produce objections to the thesis and in doing so to develop a position which contradicts the thesis. This contradictory position is the antithesis and . . . it develops out of the thesis. Now in that situation discussion may be carried on in two ways. It may become a mere battle of wits. . . . But on the other hand, both parties may really cooperate to discover the truth of the matter. . . . The two disputants will convince one another that each is partly right and partly wrong. And

if they are successful they will find themselves in the end agreeing to a position which is neither the thesis nor the antithesis but a new position which does justice to whatever is positive in both. This new position overcomes the blank contradiction between thesis and the antithesis and combines them. It is, therefore, called the synthesis, and this process in which an earlier position leads first to the production of its contradiction and finally to a new position which combines both is a development of knowledge.¹³

In Hegel's use the term "dialectic" applies not only to the process of logical reasoning but also to social or historical progression. Thought, as a dialectical process, moves from stage to stage by means of a series of contradictions, that is to say, by means of mutually antagonistic propositions, until truth is ascertained. In similar fashion the social or historical process may be viewed as developing by the compulsion of an inner dialectic, so that this process also proceeds from stage to stage by means of a series of contradictions. But the contradictions in the historical process take the form of rational thought (ideas) or of institutions. If the historical process develops by means of conflict in economic institutions, as Marx views it, the dialectic operates on a "materialistic" plane. But if, as in Hegel's view, the dialectical process operates through ideas or rational thought, it is idealistic. A brief comment on Hegel's use of the dialectic and on his influence upon Marx may help further to clarify the dialectical materialism of Marx.

HEGEL AND MARX

"All reality," said Hegel, "is the 'Idea' or 'Geist' " (mind or spirit). The absolute or world *Geist*, he said, is revealed in history. Hence, it is to history that we must go for the meaning of nature and experi-

¹³ John Macmurray, *The Philosophy of Communism* (London, 1933), p. 31.

ence. The historical process in which the *Geist* unfolds itself does not develop in accordance with the laws of natural science causality. The *Geist* unfolds itself in the form of rational principles (ideas) which come to be expressed by the human mind. In revealing itself as reality, the *Geist* ascends from stage to stage in the life-process until unity with reality is finally reached. But the unity once achieved is unstable. Unity can never be permanently realized because the world spirit or *Geist* moves through nature and society in a series of contradictions: position, negation, and negation of negation or, in other words, thesis, antithesis, synthesis. In the synthesis, or the negation of negation, the contradiction is bridged but only transiently; hence, the *Geist* must manifest itself ever anew in this dialectical manner.

In the perspective of Hegel's philosophy of history, social arrangements and social development objectify the *Geist* of history—in other words, they are the external forms through which the *Geist* is manifested as reality. By virtue of the qualities possessed by the *Geist*, institutions become relative to time and place. All that exists tends to perish. In Hegel's phraseology all that is real in the sphere of human history is rational and thus necessary. But all that is real becomes unreal because in time it becomes irrational, therefore unnecessary. According to Hegel the French monarchy had become unreal by 1789, that is, it had been so robbed of all necessity and had thus become so nonrational that it had to be destroyed by the French Revolution. Thus, as a general proposition, Hegel contended that

in the course of development, all that was previously real becomes unreal, loses its necessity, its right to existence, its rationality. And in the place of moribund reality steps in a new reality

capable of living—peacefully if the old reality has enough intelligence to go to its death without a struggle, forcibly if it resists this necessity.¹⁴

In Hegel's dialectical process, we may repeat, the transformation of institutions results from changes in men's rational thoughts. But to view the dialect in this manner was, according to Marx, simply to mystify it. Although openly avowing himself to be a pupil of Hegel, he observed that with Hegel the dialectic is "standing on its head." "It must be turned right side up again." It had to be placed upon its feet. And Marx was convinced that he could achieve this by showing that the dialectic of history operates not in the stratosphere of ideal thought but in the earthly conditions of material existence, in the modes of production. He, accordingly, maintained that "the ideal is nothing else than the material world reflected by the human mind, and translated into forms of thought."¹⁵

Some of the numerous passages from Marx's writings may be cited to illustrate his conception of how the dialectic operates through materialistic conditions. In one place where he described capitalistic production, he said: "Private property as private property, as wealth, is forced to maintain its opposite, the proletariat, along with itself. Private property is the positive side of the contradiction inherent in capitalism; the proletariat, the negative." In another place he goes on to say that "the capitalist mode of appropriation produces capitalist private property. This is the first negation of individual private property, as founded upon the labour of the proprietor. But capitalist production begets,

¹⁴ Friedrich Engels, *Ludwig Feuerbach and the Outcome of Classical German Philosophy* (New York, 1941), p. 11.

¹⁵ *Capital*, I, 25.

with the inexorability of a law of nature, its own negation. It is the negation of negation."¹⁶ Finally, in the *Critique of Political Economy* he argues that

at a certain stage of their development, the material productive forces of society come in conflict with the existing relations of production, or—what is but a legal expression for the same thing—with the property relations within which they had been at work before. From forms of development of the forces of production these relations turn into their fetters. Then comes the period of social revolution. With the change in the economic foundation the entire immense superstructure is more or less rapidly transformed.¹⁷

THE CAPITALIST PROCESS OF PRODUCTION

Since Marx applied his economic interpretation of history mainly to the capitalist system of production, we should at this point take some account of his conception of the manner in which such a system functions.

It appears to me that there are two standpoints from which Marx viewed the capitalist process. One is the economic. The other is the ideological. I use the term "ideological" to denote the framework of ideal values, assumptions, and beliefs which, more or less explicitly stated in his works, constitute Marx's world view and outlook upon life.

The economic standpoint.—From this standpoint Marx sees the capitalist system as one that is based upon a mode of production in which the means of production (capital) are the private possession of a given class and, hence, one in which the nonowning workers, the proletarians, are employed by the owning class. The process rests, then, upon the fact that workers have lost control of the tools of production or, as Marx would say, upon the fact that the workers have been expropriated from the land and the means of production. The instruments of

production are the private property of a so-called "capitalist" class which by virtue of its ownership of these instruments possesses power to direct and *control* the nonowning working class.

Again from the economic standpoint, he views the capitalist process as resting upon a vast accumulation of commodities and as being devoted to the continued production of commodities. Commodities, as Marx defines them, are objects external to man which satisfy man's wants. As means of satisfying wants, commodities are use values, Marx states. By use value he clearly did not mean "utility" in the sense in which that term is used in current economic discourse. He simply meant what Ricardo and Smith, the classical economists, meant by the term. In Marx's meaning, as in that of these classical economists, use value simply means usefulness or serviceability in maintaining life. Marx, however, reasoned that commodities are not only use values; they are also exchange values. By this he meant that, under the capitalist system of production, goods are produced not merely to satisfy needs of consumption but primarily as a means of making money (profits).

The ideological standpoint.—From this standpoint the process is viewed by Marx as resting upon wage slavery, a new condition of servitude¹⁸ in which the laborer has nothing to sell but himself,¹⁹ in which the laborer is thus in the power of the capitalist,²⁰ and in which the appearance of the laborer's freedom is kept up by means of a constant exchange of employers and the "juridical fiction of freedom of contract."²¹ The capitalist system as pictured by Marx is thus a system of force and compulsion, the authority to compel being vested in the capitalist

¹⁶ *Ibid.*, p. 837.

¹⁷ *Op. cit.*, p. 12.

¹⁸ *Capital*, I, 787.

²⁰ *Ibid.*, p. 626.

¹⁹ *Ibid.*, p. 785.

²¹ *Ibid.*, p. 628.

class. In his phraseology the capitalist personifies economic relations in which the workers are subjugated by their own products.²²

Finally, Marx viewed the capitalist process as resting upon a condition in which man is robbed of his essential human dignity. He pictured the ownership of productive wealth as the cause of "human self-estrangement." The term he employed to describe this condition is *Selbstentfremdung*. Human self-estrangement, or self-alienation, is the best English equivalent of this German word, but it does not exactly describe what Marx had in mind. What he appears to have meant by *Selbstentfremdung* is a condition whereby man is dehumanized, that is to say, man's inherent traits are so directed and organized that the common humanity of men is destroyed. He says that under capitalist production the owning class of capitalists and the non-owning class of workers are involved in the same condition of human self-estrangement. But the owning class is perfectly satisfied with this condition because the ownership of capital, while giving this class the "appearance" of a human existence, enables it to subordinate others. On the other hand, the proletariat, he goes on to state, is rendered impotent and has the reality of an inhuman existence. As he put it: "The proletariat is, in its depravity, the revolt against this depravity, a revolt to which it is forced by the contradiction between its human nature and its life situation, a life situation which brazenly and decisively contradicts its human nature."

The economic and the ideological standpoints can hardly be separated in Marx's analysis. They never occur as separate and distinct approaches in his works. They tend to be subtly inter-

woven. But I think that a firm grasp of what Marx had in mind requires us to keep the two approaches before us. This distinction between what I term the "economic" and the "ideological" approaches of Marx is strikingly to be noted in connection with his use of the term "capital."

"CAPITAL" AS VARIOUSLY USED BY MARX

To understand Marx's various uses of the concept "capital," we shall begin with the definition of capital as given in the elementary textbooks on economics. In this definition capital, in the sense of capital goods, consists of a stock of things used to produce other things or services for future consumption. This stock of things is referred to as intermediate, or producers', goods. The stock consists of tools, machinery, raw materials, buildings, and other equipment. As thus defined, the stock excludes land, although this, too, should be included as capital under certain specific conditions. Now, when Marx speaks of capital simply as the means of production, including raw materials, he is using the term in this orthodox and fairly elementary sense, that is, in the sense of producers' goods. But in technical economic discourse the term "capital" is used in another and, perhaps, more accurate meaning. In this meaning, a distinction is made between so-called "capital goods" and "real capital." Capital goods are thought of as those goods in which real capital is invested. What is this real capital? It is that part of current income from past production, represented in money, which is withheld from current consumption and thus made available for investment in new instruments, not simply in the maintenance of the old capital. When Marx speaks of constant capital, he has in mind that part of the social income

²² *Ibid.*, p. 809.

which is consumed neither by the capitalist nor by the workers but is reinvested in instruments and materials used for further production. When he speaks of variable capital, he means that part of the past income of society which is used to hire labor and hence the part that is expended in the form of wages. In these instances Marx's use of the term "capital" corresponds closely with that of orthodox economics.

From his ideological standpoint Marx constantly uses the term "capital" to set forth his views concerning the relative power status of workers and capitalists. He thinks that under the capitalist regime the means of production, although the products of labor, confront the laborer as a hostile and alien power which dominates him. Capital, he states, is not a thing. It is a definite interrelation in social production belonging to a definite historical formation of society. . . . Capital signifies the means of production monopolized by a certain part of society, the products and material requirements of labor made independent of labor-power in living human beings and antagonistic to them, and personified in capital by this antagonism. Capital means not merely the products turned into rulers and buyers of their own producers, but also the social powers and the future . . . [illegible] form of labor.²³

The importance of the two approaches will be grasped, I hope, in our consideration of the doctrine of labor's exploitation and the theories of surplus value and labor value. Let us begin with the theory of labor's exploitation as set forth by Marx.

THE EXPLOITATION OF LABOR AND THE THEORY OF VALUE

The exploitation of labor.—First, what is "exploitation" as the term is used in everyday speech? As commonly used, it denotes the sweating of labor, the over-

working of labor under exceptionally disagreeable circumstances; or, it may mean the employment of so-called "cheap" labor to lower the value of labor that is more highly paid. This, of course, is all very indefinite. A more precise meaning of exploitation is given by theoretical economics.

In scientific economics the exploitation of labor exists when a given unit of labor receives less than its competitive value, its price as determined by free market conditions. And, if I may employ what might be considered the jargon of economists, the chief factor in fixing this market value or price is the so-called "marginal productivity" of labor, or what a unit of a given kind of labor produces, in combination with the other factors, at the margin of its use.

Marx frequently used the term "exploitation" in ways that are virtually identical with the use of traditional economics and, also, with the use of everyday speech. But neither of these uses conveys what Marx precisely meant by the term "exploitation." It should never be forgotten that Marx contended that labor, whether paid poorly or well, is always exploited under capitalism. Even if the worker receives exactly what he *deserves* by competitive market standards and is able, therefore, to maintain his customary standard of comfort, his labor, as Marx saw it, is still exploited. Why is this so in Marx's view? The worker, he contended, must give up his surplus product, the surplus value created by him, to the capitalist who employs him. Exploitation, for Marx, consists, then, of this, that labor must yield surplus value to the capitalist as a condition of employment. Thus exploitation, as conceived by Marx, has a technical meaning but one that is wholly at variance with that to be found in theoretical

²³ *Ibid.*, III, 947-48.

economics. The meaning given to the term by Marx rests upon his conception of the role of labor in the production process. This role of labor is best understood on the basis of Marx's labor theory of value, for, as I stated at the outset, the doctrine of exploitation and the theories of value and surplus value are inter-related propositions.

The labor theory of value.—In giving an account of the theory, I shall try to avoid some of the subtle points and give the bare threads, as it were. At this juncture we should recall Marx's statement that the capitalist process is characterized by a vast accumulation of commodities and that the process is devoted to the continued production of these commodities. A commodity, as we saw, was defined by him as a use value and, also, as an exchange value. In other words, commodities are things serviceable in consumption but primarily things that are produced for sale in markets as a means of securing profits. In the sale of various commodities, how is the ratio of exchange fixed? It is fixed by the amount of labor embodied in them, says Marx. The value incorporated in commodities arises from the labor expended upon the production of them. Commodities, says Marx, owe their existence to one common substance. This common substance is labor. He maintains that commodities are thus nothing more than crystals of labor time. Hence, the ratio of exchange, or the exchange value of a commodity, expresses the relative amounts of labor expended in the production of different commodities. It is not the absolute quantity of labor expended upon the commodity that determines its value but rather the amount required to produce it in the minimum time under prevailing conditions of technique and of the productivity of labor.

If, under the conditions of technique prevailing in a given industry at a given time, the minimum time required to produce a commodity in that industry is a working day of twelve hours, then the value of the commodity, according to Marx, would be twelve hours of labor time. But if a change in technique reduced the workday to eight hours, then the value of this commodity would be eight hours of labor time. Marx accordingly contends that it is not the absolute quantity of labor expended upon the commodity which determines its value in exchange but "the socially necessary labor time." "Socially necessary labor time" he defines as the minimum time required to produce a given commodity under the technical conditions prevailing in a given industry at a given time.

Another modification of the theory is to be found in the difference Marx makes between concrete and abstract labor. By concrete labor he means the specialized forms of productive activity, such as tailoring, weaving, and spinning. According to Marx, labor in these specialized forms does not create value. He says that in these forms labor creates only use value. It is only when these different specialized forms have been equalized or reduced to their common element—labor in general—that values arise. This equalization and reduction of the specialized forms of labor activity to their common substance—labor in general—gives us abstract labor. This is brought about by the combination and unification of various concrete forms of labor into collective labor which is a unified and organic whole. The factory system is a chief means of bringing about this unification into collective labor. This concept of abstract labor is rather difficult, if not altogether impossible, to translate into any practical meaning.

Marx speaks of abstract labor as the total labor of society which finds embodiment in the sum total of the value of all commodities produced by that society. We shall return to this topic later, but before leaving it I should like to say something about the ideal assumption on which Marx's labor-value theory rests.

This assumption is stated by Marx in the following words: "Labor is the substance, and the immanent measure of value, but *has itself* no value. . . . In the expression, 'value of labor,' the idea of value is not only completely obliterated, but actually reversed. It is an expression as imaginary as the value of the earth."²⁴ On the basis of this assumption Marx makes labor a sort of sublime force in the life-process of society and the prime mover in production. From labor, as he sees it, arise those products which are consumed in the maintenance of the living workman and, also, those products which are used as means in producing for future consumption. Labor, then, is *the* value-creating force. Under capitalist production it has, however, a twofold character. It is indeed a value-creating force, but it is, also, an exchangeable commodity, since the workman is no longer in possession of his instruments of production and must therefore hire himself out. Since labor is a commodity, it is bought and sold at a price—a wage. But in production, where it serves as a value-creating force, it produces a commodity whose value exceeds the wage; this excess above the wage is called "surplus value" by Marx. The appropriation of this surplus value by the capitalist, he states, is equivalent to taking something for nothing. And it is the appropriation of surplus value which constitutes what Marx calls the exploitation of labor. Out of what does surplus value arise? What is

the source of surplus value? According to Marx, it originates in the surplus labor time of the worker; hence it represents the worker's surplus product, or the money value of that product. Let us look into this relation between surplus labor time and surplus value.

SURPLUS LABOR TIME AND SURPLUS VALUE

We should recall the commodity which by assumption required a workday of eight hours for its production. This commodity has, then, a value of eight hours. One part of the eight hours is necessary labor time, and the other is surplus labor time. Now, under all conditions of production, the laborer must, according to Marx, reproduce his means of subsistence, which under capitalism are represented by wages. Suppose it takes five of the eight hours to reproduce this subsistence fund. These five hours Marx calls necessary labor time. But it requires the workman a total of eight hours to produce the commodity. What happens to the remaining three hours? According to Marx, the capitalist pockets the results of these remaining three hours. These three hours Marx called surplus labor time, and they give rise to a surplus product which, when exchanged, or, converted into money, becomes surplus value. If the conditions of production are changed so that the productivity of labor is increased, the workday may be decreased. Let us say that it is decreased to six hours. This would probably result, says Marx, in the reduction of the necessary labor time to two hours, which would mean that the surplus labor time has increased to four. This happens because the increased productivity of labor lowers the time required to reproduce labor's subsistence fund. In consequence, Marx would say that labor's expanding productivity increases the amount of sur-

²⁴ *Ibid.*, I, 84.

plus labor and, hence, the surplus product, which is another way of saying that the exploitation of labor is increased with improved technical efficiency. Let us now attempt to translate these ideas concerning surplus labor time and surplus product into the concepts of surplus value.

In producing the commodity containing the eight hours of labor time the capitalist advances the workers a certain sum called "wages." With this they purchase their subsistence. The capitalist also supplies these workers with a certain amount of fixed capital—machinery, raw materials, and power. Upon the completion of the commodity it will contain a certain amount of the constant capital used up in its production. Marx called this c , the constant capital. The commodity will also contain the whole of the sum advanced as wages. He called this v , the variable capital. If the value of the commodity is x , then x , according to Marx's analysis, will equal $c + v + s$. The s represents the surplus labor that has been incorporated in the commodity. The money equivalent of the surplus labor, when the commodity is sold, is surplus value. The rate of surplus value is the ratio of s/v . And this ratio is represented by Marx as measuring the rate of labor's exploitation.

The reader, I am sure, wonders why Marx excludes the constant capital in determining the rate of surplus value. He does this on the basis of very peculiar assumptions. The primary assumption is that living labor is the only value-creating force. The constant capital, he maintains, is nothing but the embodiment of past labor. It is dead or passive labor which has to be activated by the labor of the living worker. In production a part of the value of the constant capital employed is, of course, transmitted to the commodity. If, for example, a total capi-

tal of \$5,000 is employed and the rate of depreciation (wear and tear, in Marx's language) is 10 per cent, only \$500 of this constant capital is embodied in the commodity. The value of the constant capital will continue to be transmitted at this rate until the whole capital has been used up. In the process, however, the constant capital creates no new value, according to Marx. The value of the constant capital, the result of past labor, is merely transmitted to the product, and this transmission is made possible only by the employment of living labor. Living labor is represented by variable capital or wages. While the variable capital, like the constant, is for any given time a fixed magnitude, the living labor represented by it brings about a variation in value. Not only does living labor transmit the value of the constant capital (dead labor) to the product, it also reproduces its own exchange value (wages) and, in addition, creates a surplus above the value of these two magnitudes. Marx reasoned that, since the variation in value is due solely to the employment of labor, the constant capital should be equated to zero in calculating the rate of surplus value.²⁵

Of course, says Marx, this is not the manner in which the production process appears to the capitalist. The capitalist *poses* as the "real producer" and "fancies" that he has actually purchased the whole capital, both the constant and the variable, with his own "labor" or "savings." Thus, in computing his return upon his investment, the sum of the constant and variable capital, he follows a different procedure from that expressed in the ratio of s/v . The capitalist computes his return upon both the constant and the variable capital. According to this calculation the capitalist's rate of return is represented by the fraction $s/(c + v)$,

²⁵ *Ibid.*, pp. 223 and 238–39.

the surplus value obtained over the constant and the variable capital. This ratio Marx calls the "rate of profit." Now Marx admits that the rate of surplus value and the rate of profit are different magnitudes for any given industry and even for different firms in the same industry. He contends, however, that for the economy, as a whole, the two ratios tend to be equal. He indulges in some rather adroit manipulation to prove this equality, but I do not think that the demonstration is successful.

Let us leave the rate of profit for a moment and go back to surplus value. It is Marx's contention that surplus value must be continually converted into new capital on an ever expanding scale and that without this conversion the capitalist system would stagnate. The process whereby surplus value is converted into new capital is called the "accumulation of capital." The "accumulation of capital" has to be distinguished from "primitive accumulation." The latter refers to the historical development of capitalism. As explained by Marx, "the chapter on primitive accumulation does not pretend to do more than trace the path by which in Western Europe the capitalist order of economy emerged from the womb of the feudal order of economy."²⁶ The phrase "process of accumulation" applies to capitalism as a going organization which calls for the reinvestment of capital on an expanding scale or it requires, in other words, a net formation of capital.

THE ACCUMULATION OF CAPITAL

How does Marx account for the self-expansion or accumulation of capital? Suppose, he says, a given invested capital brings an annual surplus value of \$200.

²⁶ Karl Marx and Friedrich Engels, *Correspondence 1846-1895* (New York, n.d.), p. 353.

Let us say the capital, thus invested, is worth \$5,000. Under simple reproduction this sum of \$200 serves the capitalist as a revenue fund—that is, the entire sum is consumed by the capitalist. Now Marx goes on to say that this original investment will go on yielding \$200 of revenue until the sum of the total of the surplus value equals the original investment of \$5,000. This would require about twenty-five years in the case assumed. But no capital once invested would go on yielding the same sum indefinitely whether one calls the sum surplus value or interest unless the original investment is maintained intact. The instruments in which the original capital is invested must certainly depreciate and wear out over time. This would mean that, without additional investment, the original capital would give a declining series of income—beginning with \$200—until the old capital disappeared. The contrary assumption Marx makes is wholly unnecessary to demonstrate what he had in mind, namely, a situation in which the level of productive forces is held constant and, thus, in which no accumulation or expansion of capital takes place. To show this, all that is necessary is to assume that the capitalist, while consuming a large part of the surplus value of the \$200 revenue, reinvests just enough of it to carry on production on the old scale. Under these circumstances, there could be no net accumulation, that is, no net formation of capital. This is the situation that Marx has in mind when he speaks of simple reproduction.

The purpose of the concept "simple reproduction" is to show that the capitalist production does not function as a simple reproduction process. It is a continually expanding process in which increasing amounts of the surplus value are converted into capital from which a new

surplus value arises, which is translated again and again into capital in a continuous and expanding process. Perhaps an example from everyday experience will serve to illustrate Marx's "simple reproduction." Let us suppose that the value of the total invested capital in the United States today is \$40,000,000. Suppose, further, that the annual income from last year's production is \$5,000,000. We may assume that the \$40,000,000 depreciates at a rate whereby it has a value of \$38,000,000 at the end of the current year. Hence it will require \$2,000,000 to restore the total capital to its former value. If only \$2,000,000 of the \$5,000,000 of annual income is invested, it would just restore the capital value of \$40,000,000. In this case, there would be no net accumulation or net investment. The old capital would simply remain intact without an expansion of productive forces. But if an additional \$2,000,000 were withdrawn from the annual income of \$5,000,000 and invested, there would be a net addition of capital. In this case the old capital would be maintained, but there would arise *new* investment. The new investment would make possible the purchase of new and better equipment and, hence, the expansion of productive forces. Without such annual additions to the capital stock and the expansion of production made possible by it, capitalism, according to Marx, would become stagnant.

CHANGES IN THE ORGANIC COMPOSITION
OF CAPITAL

The accumulation of capital involves the introduction of new appliances and new techniques of production. It causes the scale of production to expand, thus bringing about an increase in the volume of output. Finally, the accumulation brings about a change in the organic composition of capital.

For Marx the idea of a constant change in the composition of capital is a primary consequence of the accumulation of capital. The change in the composition of capital is expressed by an increase of the constant capital proportionately greater than the increase of the variable. In other words, the change in the organic composition of capital as Marx sees it involves a great expansion of investments in durable productive goods and relatively less in the means of consumption as expressed in wages, the variable capital. The change in the organic composition has two phases. Marx calls one of these phases the "value composition" and the other the "technical composition" of capital. The value composition is represented by the relation of the constant to the variable capital, c to v . The technical composition is represented by pm to l , pm standing for the means of production and l for labor. Hence, the organic composition of capital is represented by the formula, $pm:l :: c:v$. The relationship between pm and c and between l and v is never exact since the constant capital, c , may at one time represent more of the technical instruments than at another. Likewise, the variable capital may represent more labor at one time and less at another. This is understandable since c and v are value magnitudes, which is to say, they represent the money value of the tools of production and of the consumption fund. Given a change in the general level of prices, the value of the technical appliances would, of course, change without necessarily changing the efficiency of these appliances, if efficiency is accounted for simply in terms of physical output.

The changes in the magnitude of the constant and variable capital are relative changes. Suppose that a given total capital comprises $75c$ and $75v$. In the process

of expansion the composition might change to 100*c* and 50*v*, to 125*c* and 25*v*, and finally 145*c* and 5*v*. In the first case the composition is 50 per cent constant and 50 per cent variable. In the last case it is $96\frac{2}{3}$ constant and $3\frac{1}{3}$ variable. For the economy as a whole the relatively greater increase in the constant capital signifies a reduction in the time required to produce the means of consumption since the increased employment of constant capital on an expanding scale raises the efficiency of labor. But it is also to be noted that by expanding the scale of production the increased use of constant capital creates a greater demand for labor. From this it follows that the relative decline in variable capital does not mean that fewer workers are employed in the economy as a whole. This may sound somewhat paradoxical. The fact is, though, that since the eighteenth century a much greater volume of labor has been employed in industry than in previous centuries, while at the same time the total investment in constant capital has increased phenomenally. Take a look at two major industries, automobiles and steel. The work force has increased tremendously in each of these industries in the last thirty years. The variable capital expended in the form of wages has also increased. However, the increase in the total volume of constant capital has greatly exceeded that of the variable capital.

Marx's general conclusions concerning the changes in the organic composition of capital are that, with the accumulation of capital, a larger work force must be employed in the economy as a whole and that, since a larger amount of surplus value is appropriated by capitalists, there is greater exploitation of labor. Now Marx does not contend that this greater volume of surplus value comes

about because of a decline in the rate of wages or in the total volume of wages in the period of expansion. The greater amount of surplus value arises from the fact that an increase in the constant capital raises the productivity of labor and thus makes possible a reduction in the time required to reproduce the worker's means of consumption. Where it once required, let us say, four hours to produce the worker's consumption, it now takes only two by virtue of the increase of the constant capital. In other words, the necessary labor time is reduced by the introduction of improved techniques.

Some other features which should be noted in connection with the accumulation of capital are: (1) the concentration and centralization of capital; (2) the industrial reserve army; (3) the falling rate of profit; and (4) the "decennial" cycle of prosperity, crisis, depression, and revival. Let us consider these in the order mentioned.

THE CONCENTRATION OF CAPITAL AND THE FALLING RATE OF PROFIT

By concentration Marx meant the decline in the number of individual firms in an industry accompanied by an increase in the volume of business and also by an increase in the size of individual firms. By centralization of capital he meant that with a decline in the number of firms ownership tends to center in fewer and fewer hands. This concentration and centralization of capital is brought about by the attempt of capitalists to offset the tendency of profit to decline. But why does the profit rate tend to decline?

Before stating Marx's reasons for the decline, we should ask why he speaks of *the* rate of profit. Is it not evident from Marx's own reasoning that the profit rate at any given time must be different for

different firms in the same industry and, likewise, for different industries? Does he not show that different firms and different industries *must* at any given time have different rates of profit by virtue of the fact that their capitals are composed differently.²⁷ Some firms may employ relatively more of the constant capital while others employ relatively more of the variable capital. Marx attempts to get out of this dilemma by contending that competition forces the firms in a given industry to compose their capitals in very much the same way. This is effected by the migration or shifting of capital from firm to firm and from industry to industry. Thus, in the long run, the firms in a given industry tend to have approximately the same capital composition and, in consequence, substantially the same rate of profit. The profit rate tends, then, according to Marx, to be an average for industry as a whole.

Now to return to our first question: Why does the profit rate tend to decline? In a word, the cause is to be found in the increase of the constant relative to the variable capital. You will recall that the capitalist calculates his rate of return not as a rate of surplus value, which is represented by the ratio, *sv*. He computes his rate of return on the basis of the total capital, the sum of *c* and *v*. This rate of return, as we noted, is the rate of profit, $s/(c + v)$. Now, in Marx's view, the more constant capital employed, the greater the tendency of the rate of profit to decline. Faced with this situation, each capitalist is forced to augment his *total* profits as a means of offsetting the declining

rate. And the attempt of each to maximize his total return leads to concentration and centralization of capital.

The increase of constant capital expands the productive capacity and the output of goods. Greater output and productivity mean that unit costs of production decline and, hence, more goods are sold at cheaper prices. Ruthless competition ensues between the various capitalists in their attempt to gain the greatest market advantage. In the process the weak capitalists are driven to the wall or into bankruptcy. In either case the weak are gradually absorbed by the strong. The absorption causes the number of establishments in given industries to decline and, also, brings about a decrease in the number of functioning capitalists. Meanwhile, capital expands into those spheres of production where the small capitalists, the traders and shopkeepers, have hitherto prevailed. The expansion into these areas forces the small capitalists down into the ranks of the proletariat. The disappearance of this part of the middle class, the petty bourgeois, as Marx would say, and, along with it, the decline in the number of functioning capitalists tend to reduce society to a two-fold class structure comprising the proletariat and the capitalistic classes. We shall consider Marx's thesis of the disappearance of the middle class later. At this point at least one more observation should be made concerning the concentration of capital.

In the third volume of *Capital* Marx argues that the decline in the number of firms in industry is accompanied by a change in the form of ownership. In the seventies, when he began writing the third volume, the joint-stock company, the predecessor of the modern corporation, had begun to make its appearance. The purchase of stock in highly indus-

²⁷ Marx was mistaken in contending that capitals of different organic composition yield different rates of profit. Whatever their composition, equal capitals would certainly give the same rate of profit. In this connection see the classic criticism of Eugene von Böhm-Bawerk, *Karl Marx and the Close of His System* (London, 1898).

trialized undertakings by banking and credit institutions had begun to be fairly common. There had thus begun that separation of ownership and management which is today a typical feature of large-scale corporate business enterprise. Marx recognized the beginning of this condition and correctly analyzed some of its implications. He pointed out that the ownership of stock by a large number of persons in various industrial enterprises meant that the owner-capitalist was being supplanted by the business manager, a salaried employee of the shareholders. But Marx did not, as we shall note, fully grasp the significance of this transformation. His main conclusion was that the supplanting of the owner-capitalist, who not only supplied the capital for the enterprise but also managed it, simply shows how superfluous the owner-capitalist really is. He did not stop to consider the effect that a wide diffusion of stockownership might have upon the general public's attitude toward the institution of private ownership. Under Marx's very eyes there had begun to arise thousands of small investors in capitalistic undertakings. But he never stopped to reflect that this diffusion of ownership might strengthen rather than diminish "bourgeois" tendencies among the populace. Nor did he stop to consider the significance of the diffusion in connection with the concept of profit as an incentive to efficient organization and utilization of resources. We shall come back to these blind spots in Marx's analysis.

For Marx the change in the character of ownership and the appearance of giant industrial enterprises simply revealed the metamorphosis of private property into socialist property. Capitalism, in other words, was negating itself. It was, he says, assuming the outward form of so-

cialist collectivism without assuming the substance of the latter. It was thus demonstrating the feasibility of collectivist planning or, in his words, the organization and direction of economy by means of a central plan. Such planning would do away with competition, which in his view results in chaotic production. It would also eliminate the two features of capitalism which he thought were largely responsible for the poverty of the masses of the population. These two features are the industrial reserve army, or a relative surplus population, and the "decennial" cycle of prosperity and depression. In concluding our remarks on accumulation we shall briefly comment on these two features.

INDUSTRIAL RESERVE ARMY

Marx defines this phenomenon as a relative surplus population created by the expansion and contraction of capital. The increase in the magnitude of the constant capital relative to variable capital tends to displace labor. But the increase also expands the scale of industrial operations. This, of course, increases the demand for labor and causes the workers to increase their numbers. The expansion of the scale of operation is erratic and uncertain in its direction. It thus requires, in Marx's view, that masses of labor must always be ready and available for employment. In other words, the jerky expansion of the scale of operation necessitates a large volume of unemployed workers. There thus arises a redundant population which is alternately absorbed and displaced in the cycle of business activity. The industrial reserve army, according to Marx, exemplifies the law of population peculiar to capitalism. He says that Malthus was wrong in concluding that there is a generally valid abstract law of population. Such an "ab-

stract law exists for plants and animals only, and only insofar as man has not interfered with them. . . . Every special mode of historic production has its own special laws of population, historically valid within its limits alone."²⁸

How is the industrial reserve constituted? It comprises three strata of the working population. The first comprises the floating stratum, the second the latent, and the third the stagnant stratum. The floating is made up of youthful laborers who are greatly demanded by mechanical industry but at the same time constantly displaced by the introduction of labor-saving devices. The latent elements in the industrial reserve are created by agricultural improvements and the decline in the number of independent farmers. The growth of large-scale mechanized farming gives rise to an increasing number of industrial workers. Finally, the stagnant element is made up of those who are irregularly or seasonally employed. This element furnishes capital, says Marx, with an inexhaustible reservoir of manpower. Its condition of life is far below the average normal level of working-class existence. The stagnant reserve is mainly to be found in the sweated and seasonal industries in which the hours of work are long and the wages extremely low. The lowest layer of the stagnant reserve is composed of (1) the able-bodied paupers, (2) orphans and pauper children, and (3) the "demoralized and ragged"—those unable to work because of physical and mental defects. Marx contends that the general movements of the *rates* of wages are exclusively regulated by the expansion and contraction of the industrial reserve army. The rates of wages, he says, are determined not by the variations in the absolute number of the working popula-

tion but by the varying proportions in which the working class is divided into active workers and a reserve army.²⁹ This contraction and expansion of the industrial reserve tends to be controlled, he says, by the ten-year cycle of prosperity, crisis, depression, and revival which is characteristic of capitalist production.

THE "DECENNIAL" CYCLE

Marx's explanation of the "decennial" cycle follows quite logically from his views on the accumulation of capital. His contention should be recalled that each capitalist seeks to augment his total profit as a means of offsetting the baneful effect of a declining rate of profit. Each capitalist seeks to achieve this end by continually expanding his output and by using more and better capital equipment. As a result of this expansion of output and the scale of operation, the markets come to be flooded with cheap goods. For a while the goods are absorbed, but eventually the limits of the market's absorbing power are reached. Feverish selling among capitalists to prevent complete loss only intensifies the crisis, which eventually grips the entire business community. What, in Marx's views, causes the break in the market? Why, in other words, is the market unable continually to absorb the increasing quantities of commodities? He thinks that the relatively greater expansion of the constant capital limits the expansion of the consumption fund (as represented by wages or variable capital). There are, accordingly, too much capital or productive power and too many commodities for this narrow consumption base upon which the expansion of capital rests. The system of capitalism collapses, periodically, Marx states, because of its char-

²⁸ *Capital*, I, 693.

²⁹ *Ibid.*, p. 699.

acteristic planlessness. But he asserts that, in the final analysis, the capitalist cycle can only be explained by the relatively narrow basis of consumption; the consumption fund increases, but it increases insufficiently for the expanding productive capacity.

The revival of business activity is brought about mainly by the destruction of capital. By destruction of capital Marx seems to mean two things. The first is the physical deterioration of plant and equipment which, by creating a demand for new investments and labor-power, stimulates revival. But he also means by "destruction of capital" a writing-down of the money value of capital equipment and inventories. This, he thinks, is made necessary by the general fall of prices that takes place in the crisis. For the crisis, as Marx pictures it, is nothing more than a general collapse of values which makes it impossible for capitalists to obtain profits in keeping with the capitalized value of plant and equipment that existed in the prosperity phase of the cycle. This scaling-down of values restores industry to a healthy state and places it in a position to absorb new investments of capital at the new and generally lower prices of the depression period. But this re-writing of values also includes a change in the rate of wages. The reduction of wage rates that generally follows the crisis now makes possible the re-employment of the vast supply of labor "thrown on the pavements" in the crisis phase of the cycle. The system is now ready to expand again and, inevitably, to pass through another cycle of approximately ten years.

In Marx's analysis the business cycle has world-wide implications. Marx maintains that capitalistic countries are forced to export capital, especially to industrially backward areas, as a means of

overcoming the limitations of the domestic market. This exportation of capital helps to overcome crises in the industrially advanced countries while at the same time bringing the less advanced within the orbit of capitalist production. Once within that orbit, the less-advanced areas are destined henceforth to feel the impact of the cyclical expansion and contraction of capital that takes place in the industrially advanced countries. Thus, as Marx sees it, the whole world tends to become a vast network of capitalistic "intrigue" and "maneuvers." In consequence, the cyclical crises of capitalism become world phenomena. The necessity of capital to expand beyond domestic frontiers creates a world proletariat which, according to Marx's forecast, will eventually assume control of industry and bring about a classless society on a world-wide scale. Marx tells us that the first stage in the emergence of the classless society requires the establishment of the dictatorship of the proletariat whereby every vestige of capitalist economy, including its class arrangements, is liquidated. But Marx does not tell us how long it will be before the classless society emerges from the working-class dictatorship. Nor does he tell us by whom *power* is actually to be wielded once it is transferred, nominally, to the working class. All he says on this question is that, with the destruction of capitalism, the classless society must inevitably arise, since the working class, having liquidated its oppressors, will no longer have any necessity or reason to exist as a class. And thus it would appear that with the emergence of the classless society the dialectic process of history comes to a close.

The main points covered in our examination of this phase of Marx's doctrines should now be recapitulated. Ac-

ording to him, the capitalist system produces commodities and accumulates wealth by the exploitation of human labor. The system must continually expand productive power, both in the material form and in the form of invested wealth (values). The accumulation of capital is thus the *sine qua non* of capitalist production. The accumulation arises from the creation of surplus value by labor and the conversion of it into capital by those who exploit labor. The accumulation is accompanied by a declining rate of profit and, also, by the concentration and centralization of capital. Finally, in the process of accumulation a relative surplus population of workers is created, and cycles of prosperity and depression are generated. In these conditions are to be found the internal contradictions of capitalism—the objective circumstances by which the system is brought more or less periodically to the point of disintegration.

But these objective circumstances are never fully sufficient, in Marx's view, to bring about the "necessary" transformation of the social structure. Such a transformation depends upon the action of the class which suffers most by the internal changes of capitalism. This class is, of course, the workers. The working class by virtue of the "misery" inflicted upon it is led to revolt. The workers' ranks have been swelled by members from the upper classes, particularly the middle class. Why does the proletariat revolt? Or, perhaps, a better question would be this: Does Marx believe that the proletariat is led to revolt because its physical misery increases? Another equally pertinent question is whether Marx believed that the middle class would actually disappear.

THE THESIS OF INCREASING MISERY

In Marx's early writings, particularly the *Manifesto*, the idea of increasing misery is set forth in the sense of a progressive worsening of the physical existence of the working class. The idea had provoked considerable criticism even in Marx's lifetime. Critics of Marx pointed out that, while a great amount of poverty still existed in England, the lot of the laborer had greatly improved since the Industrial Revolution. What was Marx's reply?

He admitted that the "poor" had become "less poor." But he contended that the gap between the poor and the rich had widened. He accordingly ridiculed the statement that, "while the rich may have grown richer, the poor have been growing less poor":

How lame an anti-climax [he exclaimed]. If the working-class remained "poor," only "less poor" in proportion as it produces for the wealthy class "an intoxicating augmentation of wealth and power," then it has remained relatively just as poor. If the extremes of wealth have not lessened they have increased, because the extremes of wealth have.³⁰

This reasoning is to be found in *Capital*, which appeared some years after the *Manifesto*. In *Capital* and some of Marx's other major writings that followed the *Manifesto*, it is the idea of the relative income position of the working class that is stressed, while the notion of a progressive worsening of physical existence is toned down if not altogether dismissed. In stressing the relative income positions of workers and capitalists, Marx seems to be concerned not only with the living standards of the two classes but also, if not mainly, with their relative power status. A little probing into some of these later accounts will serve to show this.

³⁰ *Ibid.*, pp. 715-16.

In *Wage-Labor and Capital*³¹ Marx bases the proletariat's income on the "cost of the laborer's subsistence and propagation." But he emphatically states that this "subsistence level" at which wages tend to be fixed includes something more than the means of mere physical existence. There are, he says, two levels of subsistence, the one historical and the other physical. He goes on to state that

the worker's natural wants such as food, clothing, fuel and housing, vary according to climatic and other physical conditions of the country. On the other hand, the number and the extent of his so-called necessary wants . . . are themselves the product of historical development, and depend therefore to a great extent on the degree of civilization of a country, more particularly on the conditions under which, and consequently on the habits and the degree of comfort in which, the class of free labourers has been formed. . . . In contradistinction, therefore, to the case of other commodities, there enters into the determination of the value of labour-power, an historical and moral element.³²

Marx here contends that the normal wage of labor is determined by the worker's habitual or customary standard of life. Of course, he always insisted that wages could sink below this level, especially in periods of crisis. But can it be said that he thought it impossible to improve the living standards of the workers under capitalism? From his discussion of the course of real and money wages it is evident that he thought such improvement possible.

What we nowadays call the money wage or the amount of cash that labor receives for a given amount of service, Marx called the nominal wage. He could not deny, of course, that nominal wages might rise for the simple reason that

³¹ *The Essentials of Marx*, ed. Algernon Lee (New York, 1926), p. 92.

³² *Capital*, I, 190.

competition among capitalists for labor would, according to his own analysis, bring about a rise in money wage rates. This is what would happen, at least in the period of expansion. Whether an increase in the money rates of wages would mean real improvement in the laborer's position would depend upon the prices of the things the laborer buys. What, then, is of greater importance in measuring changes in the worker's living standards is the real wage, which expresses the price of labor in relation to the price of the things on which the worker spends his money—that is, the amount of purchasing power contained in the money wages.

How did Marx view the course of real wages? He said that real wages may remain the same or that they may even rise.³³ But he maintained that a rise in real wages would not necessarily mean that workers were better off in comparison with the rich. Improvement in the workers' living conditions, Marx argued, must always be considered from the standpoint of: (1) the productive power at the disposal of society and (2) the existing level of want satisfaction among the wealthy. He said:

A notable advance in the amount paid as wages presupposes a rapid increase of productive capital. The rapid increase of productive capital calls forth just as rapid an increase of wealth, luxury, social wants, and social comforts. Therefore, although the comforts of the laborer have risen, the social satisfaction which they give has fallen in comparison with those augmented comforts of the capitalist, which are unattainable for the laborer, and in comparison with the scale of general development society has reached. Our wants and their satisfaction have their origin in society, and not in relation to the objects which satisfy them. Since their nature is social, it is therefore relative.³⁴

Here Marx is most certainly *not* talking about a physical standard of existence.

³³ Lee, *op. cit.*, p. 100.

³⁴ *Ibid.*, p. 103.

He is obviously speaking of the relative income status of workers and capitalists. Now if this relatively inferior income status of workers is to be called "misery," then the misery is more psychological than physical. Such misery has the character of the affliction of which the Cape Cod fisherman is alleged to have complained when he said: "Yes, that is the trouble. My father wanted fifteen things. He didn't get 'em all. He got about ten, and worried considerable because he didn't get the other five. Now I want forty things, and I get thirty, but I worry more about the ten that I can't get than the old man used to about the five he couldn't get."

I have stated that Marx did not view the relative income of the working class merely in terms of the standard of living. He regarded it also in terms of what he considered to be the relative status of power possessed by workers and capitalists as classes, for, as we have continually pointed out, Marx firmly believed that labor is in the *power* of the capitalist. To him the capitalist personifies those historic conditions by which human beings are reduced to commodities or mere things. Marx's views on the relative status of power possessed by the proletariat are set forth very cogently in his examination of relative wages.

He defined relative wages as "the proportionate share which living labor gets of the new values created by it as compared to that which is appropriated by stored up labor or capital."³⁵ What he means by this is simply the share of the total product that goes to labor as compared with the share "appropriated" by capitalists. Marx appears to deny the possibility of an increase in labor's relative share of the national income. In fact, in some places, he argues that this share

³⁵ *Ibid.*, p. 100.

must decline. He says, for example, that if, when trade is good, wages rise 5 per cent, profit may, on the other hand, rise 30 per cent. From this he concluded that labor's proportional share or its relative wage has not increased but declined. Of course, we know that, in the capitalist United States, labor's share of the national income has increased rather than diminished over the years. Between 1900 and 1929 labor received anywhere from 53 to 69 per cent of the national income. In the same period the share going to investors remained fairly constant. But the share that went to enterprisers, or employers, declined from 26.2 to 17.3 per cent of the total income. If Marx had been confronted with facts revealing a similar trend in his day, he no doubt would have dismissed them on the grounds that the real producers were still dispossessed and, hence, under the control of the owners of the means of production. I base this opinion upon a very famous statement made by Marx. It is this: When capital is increasing very fast, wages may rise and the material position of the laborer will improve. But, says he, the social gulf which separates the worker from the capitalist has widened:

The meaning of most favourable condition of wage-labor is merely this: The faster the working class enlarge and extend the hostile power that dominates over them, the better will be the condition under which they will be allowed to labor for the further increase of bourgeois wealth and for the wider extension of the power of capital, and thus to contentedly forge for themselves the golden chains by which the bourgeoisie drags them in its train.³⁶

Again, Marx alleged that, even if it were possible in practice to jack up wages to an extremely high level, this "would only be an improvement in the payment of slaves and would acquire neither for the

³⁶ *Ibid.*, pp. 103-4.

worker nor for labor its essential human destiny and dignity."³⁷

The only meaning I can attach to the idea of increasing misery on the basis of this statement is that workers are miserable because they are in the power of those who own productive wealth and, hence, that, whatever their material comfort, this miserableness becomes progressively worse with the accumulation of capital.

Now the reader will probably wonder whether these different accounts of increasing misery can be harmonized. I am afraid that a "yes" or "no" reply cannot be given. When the *Manifesto* was written, the physical misery of the workers, even in England, was widespread and acute. And Marx was painfully aware of these conditions, for in 1844 Engels had made a thorough study of working-class conditions in England and had placed the facts before Marx. But by the sixties and seventies conditions among British workers had greatly improved. By the eighties these workers had begun to experience what was at the time called the "golden age" of British labor. Marx could not, of course, deny this improvement. But he refused to see in this improvement any marked change in the relative degree of comfort between the workers and capitalists. More and more, then, the idea of relative comfort came to be stressed by him. But in stressing the idea of relative comfort, Marx did not feel that he was repudiating the essential character of the doctrine of increasing misery. He had always viewed the workers' income not merely from the standpoint of their status as consumers but also, if not primarily, in terms of their status of power vis-a-vis the capitalist class. And from his assumption relative to the workers' lack of power under capitalism it would

make little difference to him whether increasing misery is construed in physical or in psychological terms.

THE DISAPPEARANCE OF THE MIDDLE CLASS

In considering the thesis of the disappearance of the middle class, we are again confronted with two apparently divergent accounts found, on the one hand, in the *Manifesto* and, on the other, in the third volume of *Capital* and *Theorien über den Mehrwert*.

The three dominant classes in modern society, Marx stated, are the landowners, the industrial capitalists, and the industrial proletariat. He thought, however, that with the expansion of the capitalist system the distinction between land and capital and, therefore, between the landowning and capitalist classes, disappears. The disappearance of the distinction between landowners and capitalists had, of course, begun in the eighteenth century as the result of the breakup of feudal estates and the organization of agriculture on a business or capitalistic basis. When Marx spoke of the middle class, he had in mind the "small burgher"—the independent farmer, the handicraftsman, and the small merchant. He referred to this class as the "petty bourgeoisie" which occupied a position between the great bourgeoisie, or capitalists, and the industrial workers. In the *Communist Manifesto* he predicted that this class, "the small trades-people, shopkeepers and retired tradesmen generally, the handicraftsmen and peasants," would sink "gradually into the proletariat, partly because their diminutive capital does not suffice for the sale on which Modern Industry is carried on, . . . partly because their specialized skill is rendered worthless by new methods of production."

³⁷ *Gesamtausgabe*, Part I, III, 92.

This statement from the *Manifesto* sets forth in bold relief Marx's conception of the dynamics of social progress. According to this conception the process of production places two dominant classes, the proletariat and the capitalist, in the center of economic movement. Thus in Marx's equation of change only these two classes are constant. For Marx the struggle between these two classes is the great lever of history and social transformation. Viewed in this perspective, the petty bourgeoisie is an unstable socioeconomic group which tends to dissolve under the impact of capitalistic changes. But elsewhere in Marx's writings the dialectic of class movement is not drawn with such mechanical precision. In these writings it is the new middle class of executives and white-collar employees with which he is mainly concerned.

In *Mehrwert*, which was intended to be the fourth volume of *Capital*, Marx referred to *dritte Personen* ("third persons") who function outside the production process which comprises only two classes, industrial capitalists and wage-earners. By *dritte Personen* he meant two different but related categories of people. The first category includes such independent producers as small farmers, self-employed artisans, and all other remnants of precapitalist class conditions. The second category includes two groups: (1) priests, shopkeepers, lawyers, artists, teachers, physicians, soldiers, and government officials; and (2) merchants, middlemen, speculators, buyers, traveling salesmen, foremen, commercial laborers, bookkeepers, etc. This second group represents new middle-class occupations which Marx considered to be the result of the formation of joint-stock companies (modern corporations) and the expansion of the banking and credit

system.³⁸ The joint-stock company, Marx stated, separates ownership from management and in doing so gives rise to new categories of employment which he classified under the general heading of the "labor of superintendence." He said that the "stock companies in general, developed with the credit system, have a tendency to separate this labor of management as a function more and more from ownership of capital, whether it be self-owned, or borrowed."³⁹ The labor of superintendence, represented by an "industrial army" made up of "officers (managers), and sergeants (foremen, overlookers), who, while the work is being done, command in the name of the capitalist," thus relieves the capitalist of the necessity of directly participating in production.⁴⁰

Now it cannot be disputed that over the years the new middle class in terms of sheer numbers has greatly increased rather than disappeared. And this is exactly what Marx's extended analysis of the corporation seems to indicate would happen. However, Marx's thesis concerning the disappearance of the middle class has to be examined not merely from the standpoint of the growth of new middle-class occupations but also, if not mainly, from that of the class outlook of the persons employed in these positions. Marx contended that the business executives as well as the minor white-collar employees are propertyless men and, hence, like proletarians, employees of absentee capitalists. He further contended that these employees though highly paid are confronted by unemployment and fluctuating income just as the industrial workers are. These circumstances, he thought, would lead the members of the

³⁸ *Capital*, I, 364; and III, 352-54, 456, 516-17.

³⁹ *Ibid.*, III, 456.

⁴⁰ *Ibid.*, I, 364.

new middle class increasingly to identify their interests with those of the proletariat. Such an identification of interest has not occurred among the middle class in the United States, though one might argue that it has taken place in England. But to cite the present situation in England would be inconclusive in connection with Marx's views. In the first place, it is anybody's guess as to how long the situation in England is likely to last. In the second place, a temporary alignment between workers and members of the middle class is no new historical phenomenon. The decisive question raised by Marx's views concerning the identity of interests of workers and the new middle class is whether a recognition of common interests can be more or less permanently effected between the two groups, whether, for example, those who "command," even if at the lower levels of authority in the business hierarchy, would continue to identify themselves with the working class in the socialist regime.

SOME CRITICAL OBSERVATIONS

The labor theory of value rests upon the highly romantic assumption that labor is a life-force which creates values but does not itself possess value. It seems evident to me that the theory distorts the very concept of value. In the plain dictionary meaning, "value" is nothing more than the esteem or significance of things, which finds expression in choice. The esteem always involves a ratio which the significance that the thing chosen bears to some other thing as a possible source of gratification. In economic relationships, value involves a twofold comparison, on one hand, of the importance of various wants (ends) and, on the other, of the contribution made by the available resources toward satisfying

these particular wants. Economic life, under conditions of market organization and advanced technology, tends to be ordered on the basis of this twofold comparison, or, as we might call it, the evaluating process. Whether economy is organized socialistically or capitalistically, this twofold comparison has somehow to be made if productive resources are to be guided into proper channels of use. And from the standpoint of a mechanical solution of the problems involved it matters little whether the comparison is made by a multiplicity of buyers and sellers acting in markets or by central planning agents. This conception of value plays no important part in Marx's analysis. Furthermore, there is nothing in the theory which helps us to understand value in its necessary connection with the effective utilization of resources.

Marx's theory is mainly a revolutionary doctrine and not a theory which explains the evaluation of goods and services in the effective utilization of resources. But even when the theory is construed in this manner, some important issues arise in connection with it. If labor is the only creator of values, are not the workers then entitled to the whole product? Marx's reply to this was an emphatic "No." And, Engels, agreeing with him, pointed out that in no society could the workers receive the entire product. Marx's account of how income would be distributed in the future socialist society is contained in his "Critique of the Gotha Programme."⁴¹ There he noted that the workers could receive their share of the total product only after certain costs for maintaining society's noneconomic functions had been deducted and after provisions for capital renewal and betterment had been made.

⁴¹ *International Socialist Review*, VIII, No. 11 (May, 1908), 641-60.

But is this sort of distribution any different from that of capitalism? It must be admitted that in broad outline it is hardly different. What, then, is the basis of Marx's abiding conviction concerning the necessity for a socialist transformation? Marx insists that under socialism the consumption fund of the workers would be larger, the provision for education and recreation greater, and the total product greater. Above all, he maintains that it is not merely an improvement in the workers' material comfort which is to result from communism. Full-fledged communism, he says, will do away with the servile subordination of individuals to property; and under it labor will become not simply the means of life but the first necessity of life:

In bourgeois society living labor is but a means to increase accumulated labor. . . . Capital is independent and has individuality while the living person is dependent and has no individuality. . . . In communist society accumulated labor is but a means to widen, to enrich, to promote the existence of the laborer.

Communism will assure the all-round development of every individual, and social and economic life will be governed by the principle, "From each according to his ability, to each according to his needs." To bring about these conditions, the locus of power and authority *has* to be shifted from the capitalist to the working class. Since Marx believed that the proletariat was by historical necessity the instrument for bringing about the change to these conditions, he eyed with suspicion any improvement which the workers during his lifetime were able to achieve under capitalism. In an exchange of letters with Engels, he states that the British workers had become demoralized by prolonged prosperity, that they were becoming "bourgeoisified," and that their revolutionary ener-

gy had oozed away. Thus my final comment on the labor theory of value is that it is a doctrine which imputes to the worker a supreme importance in production and which serves as a philosophic prop for Marx's belief in the necessity for shifting power from capitalists to workers as the prerequisite for human equality and freedom.

But when Marx's theory of accumulation is considered, it must be admitted that his general insight is uncannily brilliant, especially in view of some of the false premises from which he reasoned. The central idea in the accumulation theory is that the capitalist economy cannot remain stationary. The system must expand, but the expansion takes place unevenly and sometimes disruptively. As Professor Schumpeter has stated: From Marx's view the capitalist economy

is necessarily being revolutionized *from within* by new enterprise, i.e., by the intrusion of new commodities or new methods of production or new commercial opportunities into the industrial structure as it exists at any moment. Any existing structures and all conditions of doing business are always in process of change. . . . Marx saw this process of industrial change more clearly and he realised its pivotal importance more fully than any other economist of his time. This does not mean that he correctly understood the process of accumulation or correctly analysed its mechanism. With him, the mechanism resolves itself into mere mechanics of masses of capital.⁴²

He based the expansion of the process on the idea of the creation and conversion of surplus value into capital. The whole idea of a surplus value created by labor exploitation is certainly mistaken. Moreover, on the basis of surplus-value theory, it is impossible to say anything very definite about the formation of capital—how, for example, present income is di-

⁴² Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York, 1942), pp. 31–32.

vided between consumption and investment and how investments in the form of producers' goods change in form and quantity. Furthermore, the idea of surplus value prevents rather than aids understanding of the conversion of income into capital and capital goods.

With respect to the trade or business cycle, Marx was among the first economists to call attention to this phenomenon and to consider it an inevitable feature of capitalistic production. But he had no *theory* of cycles in that he did not explain the origin of the various phases or how the cycle comes to be generated within a system of prices and money. His explanation is based upon the broad generalization that the base of consumption is too narrow for the expanded production forces. In this he anticipates some present-day thinkers who feel that the failure of effective demand is a basic source of cycles.

Marx thinks of profit mainly as a form of "acquisitive" income. But the idea of profit (as unpredetermined residual income) arising from the assumption of risk and uncertainty in producing goods for future use nowhere appears in his writings.

The concentration and centralization of capital is viewed by Marx as a part of the monopoly problem. But Marx's understanding of monopoly is quite defective. For him, monopoly is simply power which arises from the ownership of the means of production. In the strictly technical sense monopoly simply means the power to fix prices by virtue of the control, not necessarily ownership, of supply. This power is never absolute and is always threatened by competitive forces. Because his formulation of the problem was defective, Marx could not explain why the concentration and centralization of capital does not lead to

universal monopoly, as it should on the basis of his analysis. In order to explain why this does not happen, one has to study the factors of cost that affect the size of the business unit. This Marx failed to do. It is true, as Marx noted, that the rate of profit in given industries is constantly threatened by improvements which, by bringing about a decrease in the cost of organization, facilitate an expansion in the size of the business unit and a decrease in the number of the units. If the cost were to continue indefinitely to decline, there would be nothing in the absence of social intervention to prevent universal monopoly. But the expansion of the size of the business unit and the decrease in the number of concerns must stop short of this because the economies connected with the increasing scale of operations are soon overtaken by increasing costs.

My final critical comment concerns Marx's views on the joint-stock company, or the modern corporation. One of his main conclusions, we noted, was that the corporation causes the separation of ownership from management. In drawing this conclusion, Marx anticipated those present-day students who consider the separation of ownership from management to be *the* problem of the modern corporation. But Marx failed signally to assess the significance of the divorce of ownership from management in terms of his own blueprint of the future, which involves transferring "power" from capitalists to workers. The divorce of ownership from management has not made the managers the "hired hands" of capital, as Marx averred. Nor has it, as he thought, placed the managers and the subordinate white-collar employees on a class footing with the proletariat. The authority that goes with managerial status and the prestige enjoyed by minor

supervisory employees necessarily separate these "workers" from the proletarians, who must in any case carry out orders. But there is another consideration that Marx overlooked in his analysis of the corporation.

He was content to observe that the divorce of ownership from management simply demonstrates the uselessness of the capitalist owners. But he did not stop to reflect that the divorce tends to shift "power" from the owners to the managers, the top-flight officials and their subordinates, who make the decisions in the running of industry. This decision-making power would have to be exercised by some group or class in a socialist no less than in a capitalist economy. And the group that exercised the power in the socialist economy would "command" without owning just as it now happens under corporate ownership in the capitalist economy. Neither Marx nor Engels ever squarely faced the issues of power in economic life. They thought of power as arising only from the ownership of capital. This is not necessarily true, as the separation of ownership from management in the corporation shows. Engels, in a running debate with Michael Bakunin, insisted that "directing authority" would be more necessary in a socialist than in a capitalist state. But he and, likewise, Marx thought that under socialism this authority would no longer constitute a "tyranny" over the workers, since, according to their assumptions, those who exercised the authority would be working-class representatives. But what seems more than probable under socialism is that those who "command" without owning will have superior rank in the industrial hierarchy, just as is now the case under capitalism, and that by virtue of this position they will constitute an élite in a new ruling class.

CONCLUSION

The main purpose so far has been to give a fair exposition of Marx's basic ideas and arguments; and critical comments made have been introduced primarily with the intention of distinguishing Marx's doctrine from expectations set up by the terms he used or by the claims made for the system. It is desirable now to consider whether and to what extent Marx really furnishes a "scientific" or sound foundation for the widely expressed criticisms of the existing order and to ask what light the Marxian system throws on basic problems of policy.

The weakest link in the chain of Marx's analysis and yet the link on which most of his doctrines depend is his labor theory of value. The theory was influenced by the writings of the early classical economists, particularly Adam Smith and David Ricardo. The influence of François Quesnay, the father of the French physiocrats is also to be discerned. But the driving force behind the theory seems to stem from Hegel's philosophy. Now Marx followed Smith and Ricardo in making use value a condition of value, and he conceived of use value in precisely the classical manner. With Smith and Ricardo, use value is synonymous with utility. But they did not comprehend utility in the meaning adopted in the marginal analysis of later economists like Jevons, Marshall, and the Austrians. In marginal analysis, utility simply means want satisfaction and is looked upon as a general motivation in economic activities. By utility the classical economists meant "usefulness" or "serviceability" in preserving life in more or less a biological sense. They therefore did not associate the idea of utility with the elementary proposition with which the marginal analysis of value

begins, namely, that the intensity of any given want diminishes as the satisfaction of it increases and that in rational economic activity the satisfaction tends to be carried up to a point where a further increment is viewed indifferently. According to the marginal analysis, value is a psychological magnitude which emerges in a quantitative comparison of given sources of gratification and tends to be fixed at the margin of utility. All this is foreign to the early classical thought, especially because such thought starts off by confounding "utility" and "usefulness." This applies with equal force to Marx. But, make no mistake, Marx (that is, in so far as it is a question of his value theory) was not just another classical economist, as he has sometimes been described.

When early classical economists spoke of value, they meant nothing more or less than exchange value, or the ratio at which goods and services exchange in markets. But in Marx's formulation value is an abstract (real) quality bestowed upon commodities by labor. Exchange value, he says, in the language of Hegelian metaphysics, is the phenomenal form in which this abstract (real) value comes to be expressed. There is nothing in the writings of Smith and Ricardo that remotely resembles Marx's concept of abstract (real) value or his idea that exchange value is only the phenomenal form of value. It is true that in considering the question as to how exchange value, that is, the ratio of exchange, is determined, Marx based the determination upon the quantity of labor just as the classical economists had done. But in some respects Marx's "quantity of labor" has a meaning entirely different from that of classical usage. When Ricardo, for instance, spoke of quantity of labor as determining exchange value or

price, he simply meant the number of workers employed under the most difficult circumstances (the margin) of production. But according to Marx exchange value as fixed by the interaction of market forces reveals the value hidden in commodities. This hidden value, he says, is nothing but "a congelation of undifferentiated human labor"⁴³ or of "abstract homogeneous labor." What is this "abstract homogeneous labor"? Marx explains:

If . . . we leave out of consideration the use-value of commodities, they have only one common property left, that of being the products of labour. But even the product of labour itself has undergone a change in our hands. If we make abstraction from its use-value, we make abstraction at the same time from the material elements and shapes that make the product a use-value; we see it no longer as a table, a house, yarn, or any other useful thing. Its existence as a material thing is put out of sight. Neither can it any longer be regarded as the product of the labour of the joiner, the mason, the spinner, or of any other kind of productive labour. Along with the useful qualities of the products themselves, we put out of sight both the useful character of the various kinds of labour embodied in them, and the concrete forms of that labour; there is nothing left but what is common to them all; all are reduced to one and the same sort of labour, human labour in the abstract.⁴⁴

According to Marx this "abstract undifferentiated labour" becomes crystallized as value. Hand in hand with his conception of "abstract labour" goes the idea, already noted, that "labour," although "the substance, the immanent measure of value," is itself without value. This mode of thinking about labor as the determinant of value was not derived from the classical economists. It is rooted in Hegelianism.

In Hegel's explanation, value denotes the *universal* significance of a thing as a means of satisfying wants. Hegel states:

⁴³ *Capital*, I, 73.

⁴⁴ *Ibid.*, pp. 44-45.

In use the object is a single one, definite in quality and quantity, and answers to a special need. But its special usefulness, when fixed quantitatively, can be compared with other objects capable of being put to the same use, and a special want, served by the object, and indeed any want may be compared with other wants; and their corresponding objects may be also compared. *This universal characteristic, which proceeds from the particular object and yet abstracts from its special qualities is the value. Value is the true essence or substance of the object and the object by possessing value becomes an object for consciousness.*⁴⁵

This abstract or universal value of which Hegel speaks corresponds to “the category of natural needs.”⁴⁶ By Hegel’s process of reasoning, things have value in the “universal sense” because they satisfy human wants in *general*. In other words, Hegel’s universal value abstracts from the special or particular character of commodities and the wants they satisfy. In civil society where division of labor prevails this universal value is transmuted into exchange value, which thus becomes the *form* in which universal value is concretely or phenomenally expressed. And labor in the abstract is the means whereby this transmutation is effected. As explained by Hegel, in civil society “universal natural need” manifests itself in a multiplicity of particular wants which are satisfied by various means. “The instrument for preparing and acquiring means adequate to specialized wants is labour.”⁴⁷ Labor, then, is the means whereby the materials given directly by nature are specialized into a multiplicity of forms for a multiplicity of uses or purposes. By virtue of labor’s power to effect this transformation it acquires significance and purposefulness.⁴⁸

⁴⁵ S. W. Dyde, *Hegel’s Philosophy of History* (London, 1896), pp. 67–68 (italics mine).

⁴⁶ Sven Helander, *Marx und Hegel* (Jena, 1922), p. 12.

⁴⁷ Hegel, *op. cit.*

⁴⁸ Helander, *op. cit.*, pp. 12–13.

But this significance is an attribute of “human effort” (labor) abstracted from the particular or specialized modes in which the effort is concretely manifested.

Hegel’s idea of an abstract or universal value which assumes the form of exchange value through the mediation of abstract labor seems to be the cornerstone in Marx’s construction of the value problem. The idea of universal value is grounded, however, upon premises peculiar to Hegel’s ontological scheme. In this scheme, individual being does not in itself embody the universal. It is only by virtue of the organic relationship between individual realities that the universal is realized; hence, individual being requires other realities besides it, if the universal is to be established. When, therefore, Marx says that concrete or individual labor creates no value, it seems that these Hegelian postulates concerning the relation of the particular to the whole, the universal, are the controlling considerations in his thinking. Accordingly, he thinks that individual or, as he termed it, concrete labor *creates* value only when it is a part of an organic relationship which subsists in a whole, an entity having universal significance. Marx concluded that this organic relationship is to be found in “collective labour,” which under the conditions of modern industry is represented by the multitude of manual laborers unified into a totality by the capitalist process of production. As Helander puts it:

When Marx . . . in the famous passage on the fourth page of the first volume [of *Capital*] “looks away from the use-value of commodities” in order thus to propel his labor theory of value, he accordingly finds in Hegel the model for this unique mode of procedure whereby he seeks to arrive at some universal quantity which [abstracted] from its special or particular qualities determines value.⁴⁹

⁴⁹ *Ibid.*, p. 12.

A theory of value founded upon the concept of "abstract" or "universal" labor cannot lead to any logical explanation of prices and costs in which relative values are expressed. Furthermore, a theory so founded has absolutely nothing to say about the evaluation of means (resources) and ends (wants) organized into a system of production. It leaves untouched the central issue of scientific economics, namely, the question as to how scarce resources are organized to satisfy human wants by means of prices. In the third volume of *Capital* Marx does attempt to translate his theory of value into an explanation concerning the allocation of resources in the satisfaction of various wants. The attempt is an utter failure. In the explanation abstract labor becomes "socially necessary labour," or the labor time required to produce any given commodity under normal conditions. Since, according to Marx, socially necessary labor time is distributed in production in proportion to the social demand for commodities, it seems that it is this "demand" and not labor which determines value. The thesis that value is a crystallization of abstract labor is thrown overboard, and for it is substituted the principle that social demand determines the distribution of labor and other resources in the production of various commodities.

But it should be noted that a theoretical explanation of price formation and of the distribution of resources was not Marx's primary concern. Marx's paramount interest was that of setting forth his conception of the unique importance of labor in the process of production. He viewed this importance in a twofold manner. On one hand, he thought of labor as the prime mover in production and thus as the creator of values. On the other hand, he looked upon labor as con-

taining a meaning or significance that transcends its importance in production. In this last sense he considered labor to be the instrument of a moral ethical purpose in the development of social life. Labor, for him, is a sort of organon in the historical process and as such appears to possess the characteristics of Hegel's *Geist* in the process of history. Thus the chief purpose of Marx's labor theory of value is to supply a philosophical basis for the significance he imputed to the industrial proletariat. The theory supports an ideology. It does not explain how scarce resources are distributed, either in a capitalist or a communist society. Any attempt to employ the theory as the basis of such an explanation should at the outset be recognized as futile. But this attempt has been very recently undertaken by a group of Soviet economists.⁵⁰

The crux of the views of these writers is contained in the statement:

In Soviet teaching and textbooks, the unsound idea was deeply rooted that in socialist economics there is no place for a law of value. . . . The law of value is not abrogated under socialism but it remains, although it acts under different conditions, and with essential changes from the way it functions under capitalism.

At the outset it should be noted that the phrase "law of value" is being used here in a double sense. In one sense it conveys the idea of the relative importance of things as expressed in price and cost ratios. Here "law of value" refers to an evaluating process which, as in the understanding of traditional "bourgeois economists," guides the distribution of resources between various uses or wants. To say, then, that the "law of value" in this sense has not been abrogated under socialism is simply to admit the validity

⁵⁰ *Political Economy in the Soviet Union*, trans. Emily G. Kazakévich (New York, 1944).

of the orthodox economists' contention that a collectivist system is confronted by the same formal problems as is capitalist economy. A collectivist organization no less than a capitalistic one has of necessity to follow some system of accounting based upon the relative importance of various objectives. It has also to determine by some means the relative contribution made by the various resources used in realizing these objectives. In brief, an intelligent ordering of economy, whether capitalist or communist in form, requires the administrators to employ some system of evaluation, which finds expression in a system of prices and costs. But in their other use of the term these economists are not thinking of value in connection with the rational allocation of resources. They are thinking of it in connection with a political-moral creed or doctrine derived from the teaching of Marx, particularly from his labor theory of value. It is fairly easy, then, to understand what these Soviet economists mean when they say that the "law of value" applies to socialism but that this in no way bespeaks the abandonment of Marxian principles. I understand them to mean nothing more than this—that, although the basic principles of economy have to be observed in their system, the social organization and, hence, human life find their ultimate purpose or meaning in terms of the ideal values supplied by the teaching of Marx.

This analysis of the labor theory of value shows that such theory, since it does not describe the mechanism by which resources are organized in production and by which the product is distributed among the participants, cannot support the thesis that the workers are exploited. At best, it furnishes support for the judgment that production, in a broad sense, is the most important proc-

ess in society and for the judgment that whatever hampers production or fails to contribute to it should be changed to bring it into conformity with such a value principle; but it furnishes no guide whatever for discrimination between what contributes to production and what does not or for judgments about the relation between the organization of production and the distribution of products.

Moreover, notice must be taken of the fact that the Marxian argument depends on an ambiguity or shift in meaning of the concept of "worker" or "laborer." In the labor theory of value, especially when collective (the only real) labor is discussed, "laborer" might mean everyone who participates in the social process by which natural resources are transformed into useful commodities. But in the exploitation thesis, "laborer" or "worker" is narrowed to apply only to wage-earners.

In considering now the doctrine of class struggle, we should note that, as a general explanation of human conduct and as a theory of history, the doctrine may be objected to on several grounds. It would be foolish, of course, to deny that men are motivated by economic interests peculiar to their class relationships. But it is undeniable that motivations supplied by noneconomic interests and by considerations connected with social status, religion, family ties, and national patriotism are sometimes just as strong and frequently outweigh those that arise in economic activities, whether the latter are thought of in terms of class position or of individual interests. The importance of noneconomic interest, of custom and tradition, as factors in motivation is recognized by Marx only *en passant*. For Marx class struggle is the lever of historical changes. All history, he states, is but a succession of class con-

licts. One could just as easily say that all history is a succession of religious (secular and ecclesiastical) conflicts. Neither bolshevism nor fascism can be explained on the basis of a strict adherence to the doctrine of class struggle. Nor, for that matter, can Britain's democratic socialism. In Marx's class-struggle account of history the deterministic and volitional elements are hopelessly intermingled. On one hand, it appears that the classes are formed by the reactions of the individuals comprising them to their experience under the institution of private property. But, on the other hand, the classes react to this experience as historical groups which embody a purpose. This purpose is historically decreed and is superior to the will of the individuals comprising it. Thus the proletariat comprising the propertyless individuals comes to constitute a sort of superindividual entity whose purpose is to make war on the possessing class, the latter being likewise constituted as a purposeful unity.⁵¹ A political party which considers itself the expression of the superindividual purpose of a class will claim an absolute and universal significance in society. It will accordingly seek to smash all opposition and to become the absolute authority in the state. Today such a party is the Communist party.

The crucial point, however, is that Marx does not succeed in showing that there is a general and necessary conflict of interest between owners and employees. We know that there is a mixture of harmony and conflict of interest running all through society and in and between all social groups, including the family. Marx's thesis involves the two-fold contention that, as between workers

and employers, there is nothing but conflict and that all other conflicts of interest are unreal or unimportant. To the second proposition he gives very little attention. His argument is concentrated almost entirely on the first proposition, that, as between workers and employers, there is a necessary and unresolvable conflict of interest mitigated by no harmony or overlapping of interest. It seems clear that conclusions about policy could not be reached, in any case, without careful evaluation of other conflicts; but, in any case, the proposition upon which Marx concentrates depends for its plausibility on the doctrine of exploitation. As we have seen, the failure of the labor theory of value destroys the foundation upon which the doctrine of exploitation rests. Even though we should agree with Marx that there are often deep conflicts of interest in society, we find in his analysis no guidance in locating and localizing such conflicts.

We have noted that the "mission" of the proletariat was not conceived by Marx in a strictly economic sense. As she saw it, the "mission" is the conquest of power. We should therefore devote some attention to Marx's views on power. Marx constantly refers to capital as the source of power in modern society and to capitalism as a system of power. He nowhere precisely explains his understanding of the term "power." Over and over again he speaks of the workers as being in the "power" of capital and capitalists. One gathers from this that by "power" he means the capacity to enforce conformity with, or obedience to, one's will—the means of such enforcement being the ownership of the productive equipment of society. The idea that Marx seeks to convey in his use of the term is that the workers are the slaves of the capitalist owners. In fact he speaks

⁵¹ See Karl Pribram, "Deutscher Nationalismus und deutscher Sozialismus," *Archiv für Sozialwissenschaft und Sozialpolitik*, XLIX (1922), 303.

of the workers as wage slaves who must do the bidding of capitalists or otherwise be annihilated by starvation. One would be disposed to dismiss this view as being one of Marx's polemical metaphors were it not for the fact that it seems to permeate Marx's serious analysis. According to Marx, under capitalism, labor, by virtue of its exploitation and expropriation from the means of production, is a commodity which is bought and sold like tangible wares. The fallacy here arises from Marx's failure to distinguish the workman's personality from the services he sells. In hiring himself out, the workman sells his services and not his person. It is, then, the service of labor and not the laborer himself which may appropriately be called a commodity. If the workman were *free* to sell himself—his person, rather than his service—he would be a commodity and, hence, a slave, as Marx contends. But where the formal freedom of the individual is imbedded in the civil constitution of society, he is not free to do this. And Marx tacitly recognized this formal freedom of workers when he admonished them to form trade-unions and political parties as instruments of revolution and reform. The admonition is wholly inconsistent with the view that workers are really slaves. Marx must have realized that, in the absence of formal freedom, labor combinations are impossible. It is, of course, true that, although in possession of formal freedom, workers may not as separate individuals have the necessary means to carry out their ends. In other words, they may lack sufficient power to make their formal freedom effective or meaningful. This lack of power or means among large sections of the population is one of the greatest problems facing liberal society. Marx's constant reference to capital as power certainly serves to make us aware

of the magnitude of the problem. But that is all. The issues connected with the power problem must be studied from the standpoint of individual freedom. Marx made no serious attempt to do this. Furthermore, his conception of the nature and source of power in economic relations is too defective to serve as a basis of my fruitful discussion of these issues.

In Marx's view, power in economic relations is a question mainly of obedience, involving the involuntary acquiescence characteristic of a state of servitude. It must, of course, be admitted that the masses of employees in modern industry are obliged to obey orders handed down by the higher executives. But a sober judgment of the facts in the case would hardly warrant the conclusion that such obedience is tantamount to involuntary submission. While the question of acquiescence on the part of employees in large-scale industry is indeed one phase of the power problem, which we shall later consider, it is not necessarily the pervasive form in which the problem arises in the economic relations of a free society. In a free society economic power, as indicated by previous comments, is the possession of means to achieve ends or to carry out interests. Economic power has therefore to be discussed in relation to freedom, since the pursuit of ends rests upon the existence of individual freedom.

Freedom, in the meaning of liberalistic ethics, is essentially freedom to pursue one's interests without restraint or coercion either by private individuals and groups or by the state when acting unlawfully. In economic relations freedom means that each individual shall be free to use whatever economic power he possesses as a means of satisfying his wants. It is freedom from restraint or coercion, hence, negative, formal, or abstract freedom. Such freedom does not confer upon

the individuals the means or the power to achieve interests. Thus, individuals, while possessing equal freedom in the formal sense, may be unequal in respect of power or means, as already suggested. But the inequality of power does not arise exclusively, as Marx would have it, from differences in the ownership of wealth. It also arises from differences in native ability, from the operation of social and economic institutions, and from sheer luck. But whatever the cause, the inequality tends, in the absence of appropriate social intervention, to increase and thus to thwart the development of individuality, which the doctrine of individual freedom proclaims as its peculiar goal. Where, because of extreme poverty and wealth, inequality of economic power tends to be great, the ideal of freedom becomes a rather shallow abstraction and can hardly be defended on ethical grounds. This was recognized by the best exponents of the liberal tradition in the nineteenth century. The problem then as now is how to remedy the inequality without at the same time destroying the incentive to efficiency, which in a measure is a condition of freedom itself. An exact equality of means among individuals can hardly be hoped for, even if this were desirable, in any condition of real life. If we include human talents and capacities in the category of means, as we properly should, then the equality of economic power is no more to be expected under ideal communism than under capitalism. Under communism individuals would without doubt differ in ability, perhaps about as much as they do under capitalism. For this reason they would differ in economic power. In his famous dictum, "From each according to his ability, to each according to his need," Marx seems to admit that unequal ability and capacity are more or

less inevitable in communist society. He assumes, however, that in a full-fledged communist system those of superior ability will be content to receive the same rewards as the less able. But even if this were actually to happen, it is likely that the more able, or those presumed to be so, would come to occupy positions of leadership and authority and that their decisions would accordingly have to be obeyed. We are thus brought back to the obedience phase of the power problem.

This phase of the problem involves issues that are peculiarly connected with the internal operation of large-scale organization. In the management of large-scale capitalistic organization, which usually assumes the corporate form, the central problem is that of making decisions and having them carried out efficiently. Power within the organization is essentially a matter of authority in making the decisions and having them obeyed. The decision-making process may be broken down into three phases: (1) "initiation," (2) "approval," and (3) "co-ordination of authority" at the higher levels of operation.⁵² Theoretically, the broad decisions of the large corporation are determined by the legal owners, the stockholders, through their elected representatives, the board directors. In practice, however, the decision-making power is exercised by one or several top-flight officials. The power is exercised not on the basis of owning the means of production, since the amount of stock owned by these officials is infinitesimal. It is exercised on the basis of superior judgment and knowledge in running the affairs of industry. The decision-making power is thus a function of industrial leadership as represented by the salaried business executives who assume

⁵² See R. A. Gordon, *Business Leadership in the Large Corporation* (Washington, 1945), chap. iv.

the responsibility for the success of the enterprise.

The position of the masses of non-owning employees vis-a-vis the industrial leaders is in one general respect similar to that of the legal owners, the stockholders. In one case as in the other there is acquiescence to the decisions of the industrial leader. But in the case of the employees the acquiescence involves "obedience" to orders, compliance with rules, and the acceptance of discipline. Just as the stockholder has lost the decision-making power hitherto associated with ownership, the worker has lost the power of self-direction. The problem, though, is not that, with this loss, the worker is reduced to slavery but rather that he finds the expression of his personality hampered by a vast organization in the running of which he has no voice. The question of giving workers some voice in the running of industry is receiving increasing attention not only by trade-union leaders but also by industrialists. But the kind of voice industrialists seem prepared to grant is not the kind union leaders seek. Even where this change in the psychology of industrial leaders has not occurred or where the leadership function is exercised autocratically or despotically, it is hardly correct to think of the workers as being in the "control" of industrialists. Possessing legal or formal freedom, the workers may seek employment under more favorable circumstances. Or they may combine to form trade-unions. But if it is admitted that the necessity of obeying decisions and rules in industrial enterprises limits the workman's formal freedom, it must also be admitted that membership in a trade-union equally limits that freedom. In the trade-union no less than in the business corporation, the decision-making power is vested in officials. In the

day-to-day operations of trade-unions the rank-and-file members are morally obligated or under economic constraint to obey orders. Trade-union leaders may and sometimes do exercise this power just as harshly and highhandedly as the leaders of industry. And if one is to judge from the way some unions are run by the leaders, one might be inclined to say that the worker has been rescued from the "power" of one type of leadership only to be delivered into the hands of another which is just as tyrannical.

The problem of power that arises in connection with large-scale organization is not peculiar to private ownership of the means of production. It will of necessity arise in a socialist scheme of things. As one writer well puts it:

The world's work requires that men must be marshalled to do that work under some sort of organization and leadership. This problem of organization is common to the United States Steel Corporation, to the British co-operatives, to the French post office, or to the industrial operations of the Russian government.⁵³

The main issue in regard to power is whether in a complex society involving large-scale organization the most satisfactory results, in terms of efficiency, justice, liberty, equality, and other values, are obtained by diffusion of power, by decentralization, separation of business and government, or by concentration of power into one hierarchy. Into this issue we cannot go here beyond saying that Marx ignores it and that the only devices so far developed for making power in some degree responsible have been those developed in the system of separation of business and government.

Finally, we may relate several of Marx's doctrines to a general thesis which runs through much of his polemic but is not by him explicitly stated in gen-

⁵³ Sam Lewisohn, *Human Leadership in Industry* (New York, 1945), p. 7.

eral form—the thesis that the capitalistic system of society is such as by its very nature to preclude, or interfere with, the attainment of proper social goals. This doctrine, in a special form, is a part of Marx's theory of the dialectic of history. At any time, according to the theory, the emerging forms and modes of production are opposed by institutions and vested interests that were set up by the preceding organization of production. Now it is true that there is frequently and perhaps generally opposition or conflict between present needs and situations, on the one hand, and customs, institutions, and interests that have been formed in relation to past needs and situations, on the other; and such opposition, sometimes referred to as "culture lag," has been described in various ways by different writers. The peculiarity of Marx's doctrine, however, is that he ascribes all the obsolescent aspects of contemporary society to the institutions and interests of capitalists or owners or to the capitalistic system and ascribes all the forces of progress to the workers. If these ascriptions are made, then it seems, indeed, that the capitalistic system must impede social progress since all its institutions are obsolescent and can operate only to impede adjustments to the present situation.

Marx gives, however, little if any reason for identifying owners or the bourgeoisie with the obsolescent features of society and the workers with the institutions emerging to meet present needs. On the face of it, any such blanket diagnosis of culture lag is quite implausible. Moreover, its implication of continual revolution is incompatible with any stable social organization or with any progress in social or political institutions. If the institutions formed by one generation always resist completely and without possibility of compromise the adjust-

ments needed in the succeeding generation, then it is continually necessary both to throw out the present holders of power and also to reconstruct completely the institutional structure.

A second doctrine suggesting that capitalistic organization necessarily perverts the process of production is the labor theory of value. Since in terms of this analysis the owner has no function in the process of production, his activity being directed solely to the acquisition of surplus value, and since according to Marx the owner has complete control of production, it would seem that whatever the owner does through his control, since it cannot be useful, must be a perversion or interfere with the productive process. Since this argument depends for its plausibility on the labor theory of value, which has been examined, no further criticism is appropriate here.

A third doctrine, which is more or less independent of the other two and perhaps more important than either, is the thesis that capitalism is essentially unstable, that it has cycles of boom and depression, and that the depressions will necessarily become more and more severe until the system collapses. This thesis cannot be lightly dismissed. Even though it is not true that depressions become more and more severe until the system disintegrates, it may still be the case that recurring booms and depressions occasion intolerable waste and cause insecurity and tension which people will escape at almost any cost. In so far as Marx's doctrine is concerned, however, it is the case, as previously indicated, that he provides no useful analysis of the business cycle and consequently gives us no means of guessing whether or not it may be controlled within the institutions of an enterprise economy or, indeed, of judging whether or not there would be

similar swings in a large-scale, progressive society organized in other ways.

The sum of our critical examination of the Marxian theory is that it does not furnish any rational or theoretical ground for various discontents and criticisms directed at contemporary society. In fact, such discontents and criticisms furnish to the theory whatever plausibility it has. The theory does not furnish a rational ground for the criticisms because it does not provide either a realistic history of modern society or a correct analysis of the institutional processes of that society. It fails in these respects not because Marx made mistakes in detail but

because he turns his attention away from actual facts, processes, and institutions to a general, "dialectical" characterization of modern society. This characterization, though it no doubt attempts to catch the essence or spirit of the society in which Marx lived, is primarily a dramatic construction whose theme is the revolutionary transformation of the political and economic order. Within the drama, actions proceed in terms of the traditional opposition between good and bad; and the classes and institutions are made to assume roles essential to the dramatic action.

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