A Critique of Political Economy

II. A Post-Mortem on Cambridge Economics *

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V

Distribution of the Factors of Production

DISTRIBUTION HAS ALWAYS been considered the central problem of economics. Yet the subject was not reached by Marshall until he had completed five-sevenths of his 722-page book;[20] this unsystematic, planless approach is characteristic of his method. On page 493 he deigns to refer to "that investigation of the causes which determine distribution, on which we are about to enter." The threshold, alas, is a long one; the actual investigation begins only on page 546. And it must be noted that the inquiry ignores or neglects most of the major problems, while it indulges itself in a host of minor questions.

Marshall completely ignores the most essential problem, that of the "primal distribution of the agents (factors) of production," i.e., the distribution of the means of production, considered as property. This problem, evidently, must be solved before that of the distribution of the product proper can be tackled. For nothing can be more obvious than that those who own property reap the benefit from it, and the greater the property is, the more they reap. This, precisely, is the problem of distribution proper: why have some persons, orders or classes a small income or no income at all, whereas other persons, orders or classes enjoy large or vast incomes from rent or profit as the fruit of large property in land or in produced means of production? How, by which historical or economic process, have they acquired their property? Which of the two means by which property can be acquired has been of deciding influence in this process: personal labor and fair exchange, or fraud and violence; as Bastiat put it, "production or spoliation"?

Bourgeois economists either ignored this crucial problem, dodged it, or attempted to solve it by the so-called "law of previous accumulation." This "law" maintains that our "capitalist" society, with its division of classes and its distribution of property, evolved through purely internal forces and by means that were fair and peaceful only, from a primitive

[20] Alfred Marshall, "Principles of Economics," Eighth Edition, New York, 1925, hereafter cited as "P.E."

group, all members of which were free and equal in political rights and economic wealth. This equality remained unshaken as long as there was still free land available for everyone who wanted it; for, evidently, in Turgot's phrase, "No well man will be willing to work for another, as long as he can take for himself as much land as he wants to cultivate." Large property in land, therefore, cannot occur here, no laborers being available to cultivate it. Little by little, however, the land is completely taken up with small and medium peasant holdings. As the Americans put it today, the "old frontiers" have been reached. From this point on, the differentiation into classes begins and progresses rapidly, first, because the law of diminishing returns forbids the division of the holdings beyond a certain minimum; and second, because, due to the same law, the return of the marginal expenditure on land is continually decreasing. Now, for the first time, the innate differences of personal qualification begin to tell: the strong, thrifty, intelligent, abstemious members of the tribe accumulate stock; the feeble, spendthrift, lazy, stupid ones remain or become poor; and these differences in wealth and income persist until the class society of modern capitalism is completed.

This theory assumes, without further examination of this preconception, that the lands of our modern States have been occupied in the manner the law poses as the condition of the differentiation into classes. This assumption is untrue. Nowhere in the world has the land been appropriated by small and medium free peasants, "until the holdings," as Rousseau remarked "touching one another, covered the whole country." Even in the most densely populated countries, at the present time when the population has increased beyond all former experience, many more holdings of that size could exist than the number that would be needed to provide for their whole agrarian population, family operating owners, tenants and landless laborers combined.

Of course, the differentiation into classes proves that the whole land is covered by holdings. But this has not occurred only because peasants have taken up small and medium-sized farms in gradual, peaceful settlement. To a much greater extent, total appropriation has been caused first by warlike conquerors employing violence, and later on by speculators making use of unjust laws, or by immediate fraud, theft of public land, bribery of public functionaries, abuse of official authority, wholesale usury and so on. Two of Marshall's great masters were aware of this. John Stuart Mill noted that "the social arrangements of Europe commenced from a distribution of property which was the result not of just partition or acquisition by industry, but of conquest and violence." And Adam Smith observed: "When the German and Skythian nations overran the western provinces of the Roman Empire, the chiefs and principal leaders of these nations acquired or usurped to themselves the greater part of these countries. All of them were engrossed,[21] and the greater part by a few great proprietors." Moreover, Mill also said:

> In the new frame in which European society was now cast, the population of each country may be considered as composed, in unequal proportions, of two distinct nations or races: the first the proprietors of the land, the latter the tillers of it."

In this way, the primal distribution of the factors or agents of production came into existence. Rising capitalism inherited it from its predecessor, feudal absolutism. Capitalism took over all of feudalism's basic institutions, especially two, the privilege of State-administration, and the monopoly of the land. In other words, it took over feudal class-domination and class-distribution. It abolished legal serfdom, but solely as a mere form, stripping the former serfs of the very best of their property, co-proprietorship of the landlords' lands. Thus it gave them nothing but the empty shell of freedom, because freedom without property is only a mockery.

It is impossible to understand any historical epoch without starting from its "initial constellation," the sum total of the institutions the epoch had to take over from its immediate precursor. Capitalism is unquestionably an historical epoch. The attempt to explain its phenomena while ignoring its initial constellation could never succeed. The law of previous accumulation is in glaring contradiction to all the facts of history; it is, as Karl Marx grimly dubbed it, a "child's primer," a "nursery tale." Marx commented aptly:

> In actual history conquest, robbery, murder, subjugation,—in short, violence, unquestionably play the big part, but mild economics knows only the bucolic idyl. Lawfulness and labor are pretended to have been the unique means of getting rich.

By clinging stubbornly to this stupid fable, bourgeois economists have changed the classic gospel of liberalism into what is deservedly called "vulgar economics."

Marshall lightly glosses over this problem. He describes the group of the free and equal, but not (as his predecessors did, and as some of his

[21] It should be borne in mind that the English term, "engross," is obsolete in the present sense. Adam Smith used it to denote the practise or process which today, almost exclusively, is meant by "monopolize."

successors unbelievably continue doing) as the real historical starting point of evolution, but as "an imaginary world, in which everyone owns the capital that aids him in his labor."[22] Here, of course, all incomes are equal, but "the increase of population, if maintained long enough, must ultimately outgrow the improvements in the art of production, and cause the law of diminishing returns to assert itself in agriculture."[23] Then he remarks abruptly:

We may leave now the imaginary world . . . and return to our own, where the relations of labor and capital play a great part in the problem of distribution.[24]

This is the law of previous accumulation in the formulation Malthus gave it in his unfortunate "Law of population." Marshall knows, naturally, that Malthus neglected the condition under which the law of diminishing returns is valid. In Nassau Senior's statement of the proviso, it was "agricultural skill remaining the same." The passage cited above proves the point. Marshall states expressly

that Ricardo, and the economists of the time generally were too hasty in deducing this inference from the law of diminishing returns; and they did not allow enough for the increase of strength that comes from organization. But in fact every farmer is aided by the presence of neighbors, whether agriculturists or townspeople.

And he quotes here all the cogent arguments of Henry C. Carey by which the American economist succeeded in disproving Malthusianism: creation of good roads, of markets, of better methods and tools for agriculture, increasing price of and gains from the product, etc.[25] He does not ask, as he is logically obliged to do, whether, perhaps, the "improvement of agricultural skill" might not be the necessary sequel of growing population, due to the law of increasing division of labor which we owe to the genius of Adam Smith.

He does not ask this; but, just as was Malthus, he is of the opinion that the law of diminishing returns is only another variation of the law of population. It is downright fantastic that a scholar like Marshall, writing as recently as he did, could so expose himself to ridicule by professing this completely-exploded pseudo-law. No doubt, in the countries of modern capitalism in peace-time nowadays, "peoples have not at all the tendency of increasing beyond the nourishment prepared for them"; inversely, the

[22] P.E., VI, I, 3.
[23] P.E., VI, I, 6.
[24] P.E., VI, I, 7.
[25] P.E., IV, III, 6.

production of foodstuffs has outgrown the consuming population in such a degree as to be a grave danger for agriculture. And beyond doubt, the modern nations show the tendency of decreasing rather than increasing "in geometrical proportion." For this reason the laboring class is no longer taught that only "moral (or prudent) restraint" in begetting children can redeem them, but on the contrary, that it is their patriotic duty to beget as many children as possible in order to prevent the "suicide of the race."

All this does not seem to exist for Marshall. He goes the whole gamut. The comic caricature of true science which the present writer has dubbed "prophetic Malthusianism juggling with ciphers" has produced the following:

> Meanwhile there will probably be great improvements in the art of agriculture; and, if so, the pressure of population on the means of subsistence may be held in check for about two hundred years, but not longer. . . . Unskilled laborers have seldom, if ever, shown a lower power of increase than of doubling in thirty years; that is, of multiplying a millionfold in six hundred years, a billionfold in twelve hundred.[26]

A development prophesied for a more or less distant future is relied upon to explain the phenomena of the past and present!

Marshall gives only very slight evidence that he was conscious of the large part violence played in the development of society. He mentions occasionally[27] "spoliation or fraud" in contradistinction to personal work, inheritance and fair exchange, without, however, drawing any inference from the facts. Regarding the monopolization of the land, he observes only this:

> In the long run the earnings of each agent (of production) are, as a rule, sufficient only to recompense the sum total of the efforts and sacrifices required to produce them . . . with a partial exception in the case of land . . . especially much land in old countries, if we could trace its record back to their earliest origins. But the attempt would raise controversial questions in history and ethics as well as in economics; and the aims of our present inquiry are prospective rather than retrospective.[28]

The deadly sin against logic of abstracting from essentials has been committed here. No author, having once chosen his objective, has the right to dodge inconvenient or difficult questions, and certainly not pertinent or controversial ones.

[26] P.E., IV, IV, 4.
[27] P.E., IV, IV, 8.
[28] P.E., App. K, 2.

VI

Wages and Wage Theories

SCIENCE OWES TO Henry George the discovery of the general law of wages and its special application to capitalist wages: "Wages depend upon the margin of production, or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent." The term "wages," in this formula, means the reward of all labor, independent and dependent (self-employing and hired). The formula for hired labor alone may be expressed as follows: "The wages of a dependent producer are determined by the amount the marginal independent producer of equal qualification is able to earn."[29]

The marginal independent producer of "normal" or average qualification is represented, in a society without monopolization of the land, by the marginal peasant, possessing as much land as he wants and is able to till, and equipped with the required live stock, tools and plants. The marginal independent producer, however, in a society where the greater part of the soil is appropriated by massed large estates and where, consequently, the land is no longer freely accessible, is represented by persons exploiting natural resources not yet appropriated, such as wild berries, crystals, etc., or who render certain services requiring no expensive equipment, such as runners, messengers, hawkers, male and female prostitutes and so on. All this is simply "evident," i.e., needs no proof, and would have been adopted at once by all economists, if there did not exist that psychological law described by Archbishop Whately, that "even Euclid's axioms would be contested if they jeopardized mighty political or economic interests."

Bourgeois liberalism in former times used to explain wages by the so-called "Wage-Fund Theory." (The idea was that a fixed amount of money capital was needed to hire labor. This represents the demand on the labor market; the number of laborers represents the supply. The wage, then, is the quotient of the fraction: the wage fund divided by the number of laborers.)[30]

Marshall's own ideas about wages show the same indeterminateness and indistinctness we had repeatedly to complain of in other connections. He agrees, on principle, with Ricardo's notorious theory of wages: "The supply price of a certain kind of labor may for some purposes be divided up into

[29] Marshall here quotes Henry George's "Progress and Poverty," P.E., IV, XIII, 3.

[30] This doctrine is still held by some Rip van Winkles in our science, but Marshall is not among them. Marshall discards the theory, ("For the assumption of a fixed wage fund there is no foundation." P.E., VI, XIII, 4), following Mill's example in "Thornton on Labor," 1869.

the expenses of rearing, of general education and of special trade education."[31] And there is the still more explicit statement:

If the economic conditions of the country remained stationary sufficiently long, this tendency would realize itself in such an adjustment of supply to demand, that both human beings and machines would earn generally an amount that corresponded fairly with their costs of rearing and training, conventional necessaries as well as those things which are strictly necessary, being reckoned for.[32]

The qualification, "conventional necessaries," is designed to evade the consequence that the "Iron Law of Labor" is accepted here. Actually, however, Marshall is a believer in this pseudo-law, as every follower of Malthus is bound to be:

Any increase in their earnings would result in so great an increase of their numbers as to bring down their earnings to nearly their old level at their mere expenses of rearing. Over a great part of the world wages are governed nearly after the so-called iron or brazen law.[33]

Ricardo's doctrine, even in its less rigid formulation, allowing for the conventional necessaries, has been disproved so often and so convincingly that one is almost ashamed to repeat the arguments. Unfortunately, economics is the science in which exploded theories continually enjoy a revival, and proved theories continually are secreted. Imagine a chemistry in which the ghost of phlogiston is permitted to appear, or an astronomy flirting with ptolemaism, and there you have the present state of "vulgar" economics.

Ricardo's doctrine rests on the confusion of the substance and its use, or, of buying and hiring. It is true that in static theory the purchase price of a machine corresponds to its costs of production: but its hiring price is something quite different. A human machine can be bought only where slavery is legally introduced, but only the use of human machines is for sale under capitalism; the laborer can be hired but not bought, and wages are the price, not of his substance, his labor power, but of its use, namely the services he renders, a price that does not correspond at all to the costs of "rearing and training him."

Marshall himself feels that this theory is far from satisfactory, even when accepted on principle. The qualification concerning the "conventional necessaries" implies a high degree of indistinctness, and, what is worse, the ultimate inference is inescapable that the tendency of wages

[31] P.E., V, III, 3.
[32] P.E., VI, V, 7.
[33] P.E., VI, II, 3.

goes toward the iron law. For this reason he must look for a more accurate determination of this quantity; and he finds it in the doctrine of the Austrian school which, on its side, goes back to certain ideas of Thuenen. The latter wrote:

> If on an estate where twenty families hitherto did the whole work, one family more is hired, and at the same time the beasts of burden are correspondingly increased, harvesting and sowing can be done in shorter and hence more advantageous time; the labor of sowing and harvesting can be done more thoroughly, and the grains can be threshed, the potatoes collected in a cleaner way. The management, therefore, ought continue hiring more families, until the return produced by the laborer last hired is equal in value to the wages he receives.

This was not meant, obviously, to be a wage theory. Thuenen had a theory of wages very different from the ideas contained in the passage quoted, but similar to those of Henry George. He determined wages by the income an independent peasant can earn on the next piece of land freely accessible to him.

The quoted passage says only that static equilibrium is not attained before the product of the last laborer is equal to the wage he gets. The wage is the independent, the expansion of the production the dependent variable: the standard of wages determines how far production is to be expanded; it is not held that the scope of the production determines the level of the wages.

The Austrian marginalists, however, misunderstood Thuenen precisely in this way: they believed wages to be determined by the scope of production which is comprehended as the independent variable. Their error rested, as Marshall aptly points out, upon the use of an ambiguous word. "To determine" can mean, first, to cause, and second, to measure something. Marshall uses the terms "to govern" and "to indicate"; he writes,

> Many able authors have supposed that the net product at the margin represents the marginal use of a thing as *governing* the value of the whole. It is not so; the doctrine says we must go to the margin to study the action of those forces which govern the value of the whole. And that is a very different affair.[34]

He reasons correctly therefore, when he writes: "The competition of employers tends to adjust the wages of labor to its net product graduated according to efficiency."[35] Or: "The wages of every class of labor tend to be equal to the net product due to the additional laborer of this class."[36]

[34] P.E., V, VIII, 5.
[35] P.E., VI, XIII, 8.
[36] P.E., VI, I, 8.

But, unfortunately, this does not bring us one bit nearer our aim, a satisfactory theory of wages. It merely points out one of the numerous characteristics of the static equilibrium. It does not tell us where this condition exists, or how it comes about; but solely that, if it exists, wages will be equal to the marginal product of the marginal laborer, just as it would imply that supply and demand would be equal, that the marginal producer would be of average qualification, or that the marginal acre would yield only wages and profit, but not rent, and so on.

Moreover, the statement does not even allow us any approach toward our aim. Marshall correctly emphasizes that the adjustment takes place only in static equilibrium,[37] but this is never attained. Furthermore, Thuenen developed his law on the example of an agrarian enterprise, a rather important one, employing twenty laborers' families. The manager of such an estate can easily find out what work could be better done if one or more additional families were hired. Characteristically, Marshall illustrates his parallel opinion, rather contrary to his usual procedure, by cases of similar simplicity: a railway company considering whether to hire an additional guard for a particular train to gain some minutes; and an agricultural manager considering whether to hire additional shepherds.

It remains, however, the secret of the Austrians and of Marshall how the managing director of a large industrial plant could find out the money value of the product of the last laborer in order to adjust his output correspondingly. He sees himself that

> Of course the net product of an individual cannot be separated mechanically from that of others who are working together with him.[38]

And, last but not least, this consideration presupposes that the industrial entrepreneur, by a law of nature, as it were, can always find as many hireable laborers as he wants. The wage system is assumed as "normal" or "natural."

[37] P.E., VI, II, 7.
[38] P.E., VI, II, 7.

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