A Critique of Political Economy

II. A Post-Mortem on Cambridge Economics*

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VII

The Labor Market

MARSHALL WAS AWARE of all the elements needed for developing a correct theory of wages. He describes the monopoly relationship under which the laborer is forced to sell his services below its value:

When a workman is in fear of hunger, his need of money is very great; and, if at starting he gets the worst of the bargaining, it remains great. . . . That is all the more probable because, while the advantage in bargaining is likely to be pretty well distributed between the two sides of a market for commodities, it is more often on the side of the buyers than on that of the sellers in a market for labour.[39]

And further:

Labour is often sold under special disadvantages, arising from the closely connected group of facts that labor power is "perishable," that the sellers of it are commonly poor and have no reserve fund, and that they cannot easily withhold it from the market. The disadvantage, wherever it exists, is likely to be cumulative in its effects.[40]

This is a precise description of an exchange under a monopoly relationship. It is inconceivable that a scholar like Marshall failed to recognize that fact. He knows perfectly what a monopoly is and what it does:

It may happen that the dealers . . . are able to combine, and thus fix an artificial *monopoly price;* that is, a price determined with little direct reference to the cost of production.[41]

This consideration concerns the possibility that dealers in a town may be able to exploit the market gardeners by a buying monopoly, and the residents by a selling monopoly. And he knows equally well the monopoly caused by artificial embargo:

[39] Alfred Marshall, "Principles of Economics," Eighth Edition, New York, 1925, V, VII, 3 (hereafter cited as "P.E.").

[40] P.E., VI, IV, 6.

[41] P.E., V, I, 5.

There is no connection between costs of reproduction and price in the cases of food in a beleaguered city, of quinine the supply of which has run short in a fever-stricken island.[42]

And he is also acquainted with "the fact that much good land is poorly cultivated, because those who would cultivate it well have not access to it."[43]

The one-sided urgency of the desire to exchange establishes a monopoly. This is one of the oldest observations of economics, one made when it was still in its infancy, long before Quesnay laid the foundations for a scientific analysis of economic life. Marshall, in the passage quoted, *describes* this one-sided urgency of the workman exhaustively. Hence it is inconceivable that he failed to set it down for what it evidently is, a buying monopoly. His position is the more enigmatic when it is recalled that his cherished masters called it by its true name. John Stuart Mill wrote: "Landed property, at least in all the countries of modern Europe, derives its origin from force. . . . Land is a monopoly."[44] Adam Smith said: "The rent of land, considered as the price paid for the use of land, is naturally a monopoly price."

This monopoly is, first, not a selling but a buying monopoly, one that enables the monopolists to buy the laborers' services below their static price; and it is, secondly, an artificial and not a natural monopoly, as it is caused not by natural scarcity but by engrossing a more than ample stock. The income of the normal qualified man is, as we pointed out, in statics equal to (J). In capitalism, however, the marginal independent producer, and hence the dependent hired laborer, earns $J - m$, m denoting the amount which the master is entitled to deduct as the gain of his monopoly. This is the very simple explanation of "surplus value" which Marx failed to discover, and it is as evident as it is simple.

With this major problem of wages disentangled, we can leave aside such minor questions as the gradation according to qualification—which, by the way, is not identical with "efficiency" as Marshall supposes—and the dynamic process which tends, through all disturbances, to re-establish the equilibrium, by adults changing and youths choosing the more favorable occupations.[45] Marshall expatiates on these rather obvious problems in three long chapters. This is not the place to discuss them further.

[42] P.E., V, VII, 5.
[43] P.E., VI, XI, 1.
[44] In his essay, "Professor Leslie and the Land Question."
[45] P.E., IV, VI, 8.

VIII

Profit and Theories of Profit

THE CORRECT THEORY of wages is also that of profit. Profit is that amount (m) which the owners of the means (or instruments) of production—the so-called "capital"—receive as the gain of their buying monopoly from the members of the dispossessed class, those who have no instruments of production of their own.

All the elements of this doctrine can be found in book I, chapter VIII of Adam Smith's "Wealth of Nations," unfortunately mixed with elements of another explanation which is the ultimate root of all the errors of bourgeois economics.

The correct theory is contained in the following passages:

> The produce of labour constitutes the natural recompense or wages of labour. . . . As soon as land becomes private property, the landlord demands a share of almost all the produce. . . . His rent makes the first deduction from the produce of the labour which is employed upon land. . . . It seldom happens that the person who tills the ground has the wherewithal to maintain himself. . . . His maintenance is generally advanced to him from the stock of the master. This profit makes the second deduction from the produce of the labour which is employed upon land. . . . The produce of almost all other labour is liable to the like deduction of profit. In all arts and manufactures the greater part of the workmen stand in need of a master to advance them the materials of their work and their wages and maintenance till it is completed.

This is pure and undiluted social liberalism. It is, however, spoiled by the following passage which contains the basic error of bourgeois economics:

> In the original state of things the labourer has neither landlord nor master to share with him. . . . But this original state of things could not last beyond the first introduction of appropriation of land and the accumulation of stock. It was at an end, therefore, long before the most considerable improvements were made in the productive powers of labour, and it would be to no purpose to trace further what might have been its effects upon the recompense or wages of labour.

The words "and the accumulation of stock" mark the point at which social liberalism was diverted into the blind alley of bourgeois economics. Smith's fatal error was that co-operation and production cannot progress unless the entire stock of means of production required for the productive process is accumulated by persons who had saved it from consumption in a former period in order to have it for the disposal of producers in a later period. This would mean a sacrifice, which would not be made unless some recompense were offered: profit!

The subsequent generations of bourgeois economists completely ignored the first doctrine, teaching or preaching only the second one. Nassau Senior went so far as to maintain that two kinds of sacrifice must be made for every higher stage of production, labor and abstinence; which, therefore, he held, were entitled to share the product. The term was exceedingly awkward; Ferdinand Lassalle presented the Baron de Rothschild as the first of all "abstinents," an emaciated penitent, a stylite holding the beggar's bowl in fleshless hands.

Marshall, to avoid this terminological ineptness, chooses a more cautious term, *waiting*. "The power to save is greatest among the wealthy," he notes.[46] It is, notwithstanding, exactly the same theory, only decked out in the modern fashion with some marginalistic frills:

> Discommodities fall generally under two heads: labour and the sacrifices involved in putting off consumption.[47] The chief demand for capital arises from its productiveness, the supply is controlled by the fact that, in order to accumulate it, men must act prospectively, they must "wait" and "save," they must sacrifice the present to the future.[48] We are justified in speaking of the interest on capital as the reward of the sacrifice involved in the waiting of the enjoyment of material resources.[49]

This theory is wrong. It can be refuted by two plans of attack, one of which is valid for the whole group of capital theories to which this one belongs, the other for it alone.

The group of theories to which this belongs consists of doctrines which try to explain profit by one ground or another that would entitle the capitalist to get more than his costs of production, the reward of his labor being included in those costs. That is, they cite the productivity of the capital, or its fruitfulness, or the use of his capital, or his abstinence, oı his waiting, and so on. All of them, and all their numberless combinations and permutations, suffer from what I have called their "private-economic bias." Adam Smith gave the answer in considering the economic policy of the corporate towns, when each trade fixed prices so as to exceed the actual outlay for the materials on which it worked. He remarked:

> In consequence of such regulations, indeed, each class was obliged to buy the good they had occasion for from every other within the town, some-

[46] P.E., IV, VII, 7.
[47] P.E., IV, I, 2.
[48] P.E., II, IV, 8.
[49] P.E., IV, VIII, 8.

what dearer than they otherwise might have done. But, in recompense, they were enabled to sell their own just as much dearer, so that so far it was as broad as long, as they say.

This policy, nevertheless, was reasonable, because all of them, by this regulation, were able to exploit the country folks, in relation to whom they had a strong selling monopoly. The capitalist enterprisers do not possess that type of selling monopoly. Marx, therefore, rightly explained:

> Let us assume that, due to an inexplicable privilege, the seller be able to sell his commodity above its value, to 110, if it is worth 100, and thus, to pocket a surplus of 10. But he becomes a buyer after having been a seller. A third owner of commodities meets him on the market, enjoying the same privilege to sell 10 per cent over value. Our hero has won ten as a seller, only to lose ten as a buyer.

This is the same consideration that each capitalist can add what one can add. Therefore, no profit can be made unless a monopoly exists, a selling one in the case reported by Smith and (and this is what Marx failed to see) a buying one in the case he himself analyzed.

This refutation of all the bourgeois theories of profit is so strong that Joseph Schumpeter has seen no other way out than to declare that there is no static profit at all, and to attempt to deduce it as a dynamic phenomenon. This was a desperate step, and it is seen to be unnecessary as soon as one recognizes that there is a monopoly involved.

The second refutation argues that the notion of "capital," as it is held by the classical and post-classical economists, is ambiguous, causing the doctrine to be an uninterrupted chain of equivocations.

IX

Theories About "Capital"

"Capital" originally meant the main (or capital) sum of a loan in contradistinction to the interest upon the loan. When the entrepreneur's profit appeared as a new class-determining income, apart from the older rent of the large landholders, the problem arose how to explain and, likewise, to justify it. The question was answered by the strange notion that the capitalist lends to himself a sum of money at interest, with which to buy the means of production. The capitalist played both the usurer and his victim. The newly-introduced system of keeping book by double entry helped to accomplish the delusion; the enterpriser transfers a sum of money from his personal account, for which he is credited, to the account of the firm, by which it is debited. This practice is the origin of the quaint expression that the capitalist "advances" the "capital" to the enterprise, and to the still quainter custom of calling the material things bought with the "advanced" money also "capital."

In this manner the conception of "capital" acquired its double sense. It means the instruments of production, and at the same time the right to a certain lucrative property, yielding interest or profit.

Now the instruments of production are something material whereas rights are something immaterial, the former a technical, the latter a sociological category, because rights do not exist except in society. They are two things which are essentially and fundamentally different, and it is a mortal sin against logic to identify them with the same name. Marshall was a learned mathematician and he certainly knew that it was forbidden to add "pears and apples," as we had been taught in the sixth form. Yet, like his entire school, he does not hesitate to add material things and rights:

> Material goods consist of useful material things, and of all rights to hold, or use, or derive benefits from material things, or to receive them at a future time.[50] By capital is meant all stored-up provision for the production of material goods, and for the attainment of those benefits which are commonly reckoned as part of income. It is the main stock of wealth regarded as an agent of production rather than as a direct source of gratification.[51]

The first consequence of this erroneous terminology is the ridiculous practice of dubbing as "capital" the crude implements of the most backward tribes, the bow of the hunter, the net of the fisherman or the plough of the primitive peasant.[52] Marshall, in a footnote, even attempts to justify this practice with a rebuke that is merited by his own transgression:

> This is a striking instance of the dangers that rise of allowing ourselves to become the servants of words, avoiding the hard work that is required for discovering unity of substance underlying variety of form.[53]

Material instruments and rights have certainly no unity of substance. The plough of the primitive tiller has its material opposite in the modern factory, but modern profit has its non-material opposite in the enormous

[50] P.E., II, II, 1.
[51] P.E., IV, I, 1.
[52] P.E., II, IV, 1.
[53] *Ib.*

interest which usurers still extort from their victims in many very backward tribes.

The ridiculous custom of considering as "capital" the most primitive instruments of labor has the hidden purpose of presenting capitalism as the timeless realization of perfect economic freedom, instead of what it actually is, an historical epoch with which science has to deal by the same methods as with every other historical epoch, that is, by taking account of its "initial constellation."

Marshall, after having distinguished shrewdly between the cooking utensils of a primitive peasant, which are not capital, and his plough, which is, enumerates the elements which compose modern "trade capital" as follows:

> Among its conspicuous elements are such things as the factory and the business plant. . . . To the things in his possession must be added those to which he has a right, and from which he is drawing income, including loans he has made on mortgage or in other ways, and all the command over capital he may hold under the complex forms of the modern money market. On the other hand, debts must be deducted from his capital.[54]

It is very easy, of course, to reduce these seemingly incompatible items by the same general denominator. It is not "his machinery, his raw material, any food, cloth and houseroom that he may hold for the use of his employes" that comprise parts of his "capital from the individual point of view," but simply his *right to use* all these things to his personal advantage. All the items are property rights, viewed sociologically; for the purposes of economics it is indifferent that some of the objects, viewed technically, are material and some non-material.

But this confusion is the last stronghold of bourgeois economics. To abandon it would mean to retreat from the last strategical position from which the capitalist order, based on the monopoly of the soil, can be defended. It would require acknowledging the truth of the formula, the formulation of which we owe to the genius of Karl Marx:

> A Negro is a Negro: under certain social conditions he becomes a slave. A cotton machine is a machine for spinning cotton: under certain social conditions it becomes capital, yielding surplus-value.

This condition, the "capital relationship," is given when all instruments of production are accumulated on the one pole of society and when the free laborers are huddled about the other pole, being free in a double sense,

[54] P.E., II, IV, 2.

politically—being neither slaves nor serfs—and economically—having been stripped of all personally-owned means of production. This is the monopoly of capital, rooted, as Marx occasionally confessed, in that of the land.

There are things, however, which, to speak about, is considered bad manners in the bourgeois nursery. The pundits hold desperately to the logic of adding pears and apples, and attain thereby their aim of explaining and at the same time justifying capital profit as the reward of a service rendered to society, and as a "natural" gain, necessary by natural law and just by moral law.

X

Capital and the Goods of Procurement

THE JUSTIFICATION OF PROFIT, to repeat, rests on the claim that the entire stock of instruments of production must be "saved" during one period by private individuals in order to serve during a later period. This proof, it has been asserted, is achieved by a chain of equivocations. In short, the material instruments, for the most part, are not saved in a former period, but are manufactured in the same period in which they are employed. What is saved is capital in the other sense, which may be called for present purposes "money capital." But this capital is not necessary for developed production.

Rodbertus, about a century ago, proved beyond doubt that almost all the "capital goods" required in production are created in the same period. Even Robinson Crusoe needed but one single set of simple tools to begin works which, like the fabrication of his canoe, would occupy him for several months. A modern producer provides himself with capital goods which other producers manufacture simultaneously, just as Crusoe was able to discard an outworn tool, occasionally, by making a new one while he was building the boat.

On the other hand, money capital must be saved, but it is not absolutely necessary for developed technique. It can be supplanted by co-operation and credit, as Marshall correctly states.[55] He even conceives of a development in which savers would be glad to lend their savings to reliable persons without demanding interest, even paying something themselves for the accommodation for security's sake. Usually, it is true, under capitalist conditions, that a certain personally-owned money capital is needed for undertakings in industry, but certainly it is never needed to the full amount the work will cost. The initial money capital of a private en-

[55] P.E., IV, XII, 11.

trepreneur plays, as has been aptly pointed out, merely the rôle of the air chamber in the fire engine; it turns the irregular inflow of capital goods into a regular outflow.

Now the whole farrago of capital theory is sifted and sorted. When the indispensability of capital is to be proved, the material face of this economic Janus-head is turned up: capital goods. When saving and waiting and sacrifice are to be proved, up pops the other face: money capital. This, in the modern idiom, is unpalatable uncleanliness. Scientific decency and honesty demand a terminology that rules out such equivocation.

Rodbertus proposed distinguishing between the instruments as "social capital" and the rights as "private capital." His disciple, Adolf Wagner, one of the most honest truthseekers in our science, accepted the distinction; he spoke of "capital in the private economic sense" and "capital in the social-economic sense." In vain! Not even Wagner's great authority was sufficient to impress the vulgar economists. We still need a terminology that is not exposed to misunderstanding. For this reason, the present writer employed the terms "goods of procurement" for the material means of production, and reserved the word "capital" exclusively for its original significance, denoting a property right yielding an income not earned by labor.

Marshall gives a striking example of the importance of the need for a radical reform in economic terminology. He adopts Wagner's expressions only to misunderstand them. He calls "capital from the individual or business point of view" that farrago of material goods and non-material rights enumerated above.[56] He presents a similar jumble as "social capital":

> It is proposed in this treatise to count as part of capital from the social point of view all things other than land which yield income . . . together with things in public ownership such as government factories. . . . Thus it will include all things held for trade purposes, whether machinery, raw material or finished goods; theatres and hotels, homes, farms and houses; but not furniture or clothes owned by those who use them.[57]

This is one of the innumerable attempts to evade the insurmountable difficulties in which bourgeois economics finds itself as a result of this ambiguous definition. A theatre, a hotel, a stock of consumers goods in the shop of a retailer, are certainly not "instruments of production." But they are nevertheless undoubtedly "capital." Hence the treatises on economics are full of enumerations of what is and what is not "wealth," or

[56] P.E., II, IV, 2.
[57] P.E., II, IV, 5.

"capital," or "national wealth" or "national capital." The lists cannot but be very different from one another, since when pears and apples are added by different persons the sums cannot be expected to agree.

The situation offers the most desirable opportunity for dealing profoundly with problems that are no problems at all, for kindling scholarly feuds and for producing the most elaborate dissertations. The logical acrobatics performed would be most amusing, if so much were not at stake. Economic pseudo-science bars the way out of the present world economic chaos. The barriers must be cleared away.