Marxian Value Reconsidered

By Thomas Sowell

While it is increasingly recognized that Marx's " value " theory was not a theory of prices,[1] there still seems to be some doubt as to its real meaning and its rôle in the general framework of Marx's economic analysis. Some have conjectured that it was an attempt to establish an index of output, and others that it was simply a propaganda device for picturing labour as " exploited ".

Neither of these conjectures will stand up. Value measured by labour time is one of the worst possible indices of output, especially in a system such as Marx's where labour-saving innovations are emphasized. It permits such paradoxical results as falling wages (in value terms) purchasing a growing mass of commodities.[2] This forced both Marx and Ricardo to distinguish between " quantity " and " value " in inter-temporal comparisons, indicating that the difficulty was not only present but recognized. As to the exploitation of labour, this is not exploitation in the sense of under-payment of a factor of production for its contribution to output. Marxian " exploitation " is the exploitation of man by man, not of one factor of production by another. There is no real issue of the relative contributions of labour and capital in the Marxian system, which argues precisely that capital itself is created by labour, and therefore is not to be regarded as a contribution of its legal proprietor at all.[3] There is in Marx a certain definitional sleight-of-hand by which output per unit of labour is made to appear as labour's output, but this proves to have little effect on Marxian economics as economics. The whole of the Marxian argument could be recast in terms of marginal productivity without doing violence to the analytic content of either system, whatever the effect on the moral overtones.[4]

It is sometimes claimed that Marx thought commodities *ought* to exchange in proportion to the labour expended on them, and that this would or should be done in the socialist society of the future. This scheme, which had deep roots in the general socialist tradition of the nineteenth century, was repeatedly denounced by Marx and Engels

[1] J. A. Schumpeter, *History of Economic Analysis*, New York, 1954, pp. 597–8; D. F. Gordon, " What was the Labour Theory of Value?", *American Economic Review, Proceedings*, May, 1959, p. 470.

[2] K. Marx, *Capital*, Chicago, 1906, Vol. I, pp. 572–3; K. Marx, *Theories of Surplus Value*, New York, 1952, p. 320; *The Works and Correspondence of David Ricardo*, ed. P. Sraffa, Cambridge, 1953, vol. I, p. 50

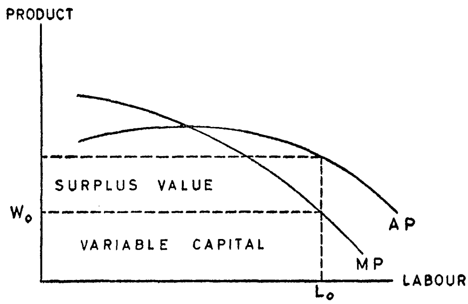
[3] *Capital*, vol. I, pp. 638, 642.

[4] For example, the Marxian rate of exploitation, $S/V = (AP - MP) MP$, where S = surplus value, V = variable capital (the wage bill), AP = average product of labour and MP = marginal product of labour. This is shown on the diagram below where W_0 = the wage rate and L_0 = the amount of labour hired.

in their polemics against Gray,[1] Bray,[2] Proudhon[3] and Rodbertus.[4] The " determination of value by labour-time " was not for Marx " the regenerating principle of the future ", but " merely the scientific expression of the economic realities of present-day society . . . "[5]

I. Economics

Marx, like many other economists, had his own definition of economics. In his case, however, an understanding of his conception of the subject is necessary for an understanding of his substantive propositions. Economics, for Marx, was not the study of relationships among impersonal magnitudes such as profit, output, prices, etc., but the study of the relationships between human beings in the productive aspect of life. It is the " human agents " in their " mutual relations " which constitutes the " economic structure " of society.[6] Value as human labour and surplus value as the excess of that labour over its own maintenance requirements were constructs employed in this sort of analysis, though Marx recognized that they were not observable magnitudes in the market place, as, for example, were *exchange*-value (price) and profit. The empirical magnitudes with which conventional economics occupied itself were, in Marx's Hegelian terminology, mere " appearances ", symptoms of an underlying reality which must be investigated in different terms. References to prices and profits as the "form ", "appearance ", or " phenomena " expressing the underlying social reality of value and surplus-value are scattered throughout Marx's writings.[7] The one set of concepts represents, according to



Thus, there is surplus value even though workers are paid the value of their marginal product, with no " exploitation " in Joan Robinson's sense.

[1] K. Marx, *A Contribution to the Critique of Political Economy*, Chicago, 1904, pp. 103–6.

[2] K. Marx, *The Poverty of Philosophy*, Moscow, n.d., pp. 84–7.

[3] *Ibid.*, Ch. I.

[4] F. Engels, " Preface ", *ibid.*

[5] K. Marx, *ibid.*, p. 76.

[6] K. Marx, *Capital*, Chicago, 1909, vol. III, p. 952; *Critique of Political Economy*, p. 11.

[7] *Capital*, vol. I, pp. 45, 57n, 70, 71, 93n, 95n; Marx and Engels, *Selected Correspondence*, New York, 1942, pp. 227, 232, 242, 245 ; *Theories of Surplus Value*, pp. 203, 261.

Marx, " the invisible and unknown essence ", while the other represents " phenomena which show themselves on the surface ".[1]

The approach to economics which focused on the social relations of production on the one hand, and that which focused on market phenomena on the other, were dubbed, respectively, " classical economics " and "vulgar economics".[2] While Marx considered the former the more fundamental inquiry, he did not entirely dismiss the latter. He did, however, insist that the two kinds of analysis be kept separate. His methodological criticism of classical economics was that it had tended to confound the categories and definitions appropriate to the social relations and those appropriate to the market relations. It had made " a regular hash "[3] of these fundamentally different conceptions, Marx claimed. Ricardo was accused of directly identifying value with price, and surplus value with profit.[4] Marx also found Adam Smith prone to similar methodological sins:[5]

> These two modes of approach in Adam Smith's work not only run unconstrainedly side by side, but are interwoven and continuously contradict each other : the one penetrating to the inner relations, the physiology as it were, of the bourgeois system; the other only describing, cataloguing, expounding and bringing under classifying definitions the external phenomena of the process of everyday life in their outward manifestation and appearance.

Marx did not go into specifics on this point. However, it can be seen that Smithian " value " and " real " wages, for example, are initially defined in senses relevant to a sort of economic sociology — value as human cost, and real wages (and other revenues) as the recipient's title to a quantity of his fellow-man's labour.[6] But these definitions give way to, or alternate with, definitions more in keeping with modern economic usage: value as price, and real wages as goods and services.[7] Moreover, throughout the classical period, from Adam Smith through J. S. Mill, categories of class income distribution did double duty as categories of factor returns. Rent, for example, was at times the return to differential natural productivities of intra-marginal land, and at other times (without notice) simply the revenue of landlords, including of course the return on investment in agricultural improvements.

Marxian analysis, like modern economics, insisted on a sharper distinction here, but unlike modern economists he did not make factor returns, allocational efficiency, etc., the central focus of his reasoning. Marx was in a paradoxically conservative rôle in clinging to the older classical questions, though he found their answers faulty. He was certainly not concerned with making capitalism work more

[1] *Capital*, vol. III, p. 56.
[2] *Capital*, vol. I, p. 93n.
[3] *Selected Correspondence*, p. 227.
[4] *Ibid.*, pp. 131, 137; *Theories of Surplus Value*, pp. 202, 214, 231, 283, 329, 342.
[5] *Theories of Surplus Value*, p. 202.
[6] Adam Smith, *The Wealth of Nations*, New York, 1937, pp. 30, 33, 64.
[7] *Ibid.*, pp. 33, 78, 338, 641.

efficiently (it is hard to imagine that he would have spent twenty years in the British Museum for that purpose), and he also studiously avoided providing " recipes " for the operation of a socialist economy. The question of the contributions and rewards of classes was, however, much more in keeping with his over-all concern. This question, to be meaningful, had to be in human terms — the contribution of capital*ists* and labour*ers*, rather than of capital and labour— and not in terms of the artifacts of the system which was itself on trial. The marginalist answer to Marx was largely irrelevant for this reason, whereas, for example, the Schumpeterian system, in which the entrepreneur personally contributes to economic progress, met Marx on his own ground.

In his emphasis on that aspect of the classical tradition which was in keeping with his own interest, Marx tended to read some of his own views back into the classical economists. Thus, for example, Ricardo's definition of the value of wages in relative terms was taken by Marx as an indication of an underlying social philosophy stressing the relative positions of social classes, when in fact Ricardo meant nothing of the sort.[1] But for present purposes the accuracy of Marx's interpretation of the classical tradition is less important than the nature of that interpretation, its relevance for understanding the structure of Marxian economics, and more specifically its influence on the organization of *Capital.*

Marx deliberately separated the treatment of the social " essence " of capitalism (vol. I) from the treatment of the economic " appearance " or " phenomena " to which it gives rise (vol. III). Value and surplus value make their appearance in the first volume of *Capital*, and are the basic conceptual tools in the analysis developed there. Exchange-value (price) is treated systematically only in the third volume, where the analysis finally considers " the *forms of appearance* which serve as the *starting point* in the vulgar conception "[2] (Marx's emphasis). Only in the third volume does the analysis " approach step by step " economic entities as they appear " in their mutual interactions, in competition, and in the ordinary consciousness of the human agencies in this process ".[3] It was, in short, only from the third volume onwards (*Theories of Surplus Value* being intended as the final volume) that Marx dealt systematically with economics. One minor but revealing symptom of the shift in the frame of reference is the fact that interest, which was dismissed in passing in volume I as " a mere fragment of surplus-value ",[4] was treated at length as an economic variable in volume III.[5]

While there was a drastic shift in point of view from volume I to volume III, there was no corresponding change of mind on Marx's part, as is sometimes alleged. Marx outlined the whole organizational

[1] *Theories of Surplus Value*, p. 320 ; *The Works and Correspondence of David Ricardo*, vol. II, pp. 249–50.
[2] *Selected Correspondence*, p. 245.
[3] *Capital*, vol. III, p. 38.
[4] *Ibid.*, vol. I, p. 644.
[5] *Ibid.*, vol. III, ch. XXI–XXVII.

structure of *Capital* to Engels in the 1860's, and followed it completely.[1] He had worked out the relationship between value and prices (the so-called " transformation problem ") at least five years before publication of the first volume of *Capital*, as evidenced by a letter explaining it to Engels in 1862.[2]

Despite superficial resemblances to Ricardian value theory, in Marxian economics there was only what Marx himself called a " concept of value "[3] and a "definition of value ",[4] but not a labour *theory* of value. Marxian value was a construct similar to the Keynesian "wage-unit", both in analytic intent and in substantive meaning. As will be seen below, Marx was flabbergasted when a critic expected him to *prove* the concept of value. The Ricardian value theory, as Schumpeter observed, "forms no part of Marx's teaching",[5] though its suggestive rôle is scarcely deniable. While Marx characteristically charged bad faith to a critic who " attempts . . . to burden me with all Ricardo's limitations ",[6] he was himself in part to blame for misunderstandings. Engels had pointed out to him in advance how the " vulgar economist " would interpret the first volume of *Capital*, but Marx insisted that "this matter can be set forth only in the third book", after an elaboration of capital turnover and related problems (Vol. II).[7]

> He said : " If I were to *silence* all such objections *in advance*, I should ruin the whole dialectical method of development. On the contrary, this method has the advantage of continually *setting traps* for these fellows which provoke them to untimely demonstrations of their asininity ".[8]

By " dialectical " in this instance Marx presumably meant the systematic development of his analysis from " essence " to "appearance". He apparently expected to crush his critics when the second and third volumes appeared within a year or two according to his schedule. He did not foresee the long delay before their eventual, posthumous publication, and the marginalist revolution which would be completed by then (Jevons, in fact, died a year before Marx). The most important effect of this delay of a quarter of a century between publication of volume I and volume III of *Capital* was that it provided ample time for Marx's followers and his marginalist critics to join battle and harden their positions on the false issue of a labour theory of value.

II. The " Law of Value "

The Marxian " law of value " was explicitly a law of allocation of labour (reduced to homogeneous wage-units) by society at large. The " law of value . . . determines how much of its disposable working-time society can expend on each particular class of commodities ":[9]

[1] *Selected Correspondence*, pp. 244–5.
[2] *Ibid.*, pp. 129–31. [3] *Ibid.*, p. 246. [4] *Ibid.*, p. 232.
[5] J. A. Schumpeter, *op. cit.*, p. 597.
[6] *Selected Correspondence*, p. 234.
[7] Letter to Engels, *Engels on Capital*, ed. L. E. Mins, New York, 1937, p. 126.
[8] *Ibid.*, p. 127. [9] *Capital*, vol. I, p. 391.

Engels observed, somewhat condescendingly, that the "law of value ... brings about the only organization and arrangement of social production which is possible in the circumstances", *i.e.*, under capitalism.[1] The law of value, according to Marx, "enforces itself not with reference to individual commodities or articles, but to the total products of the particular social spheres of production ...".[2] In short, the Marxian law of value was not a law of correspondence between definitional values and empirical prices, but on the contrary asserted that the two *must* differ, primarily because of the disequilibrium inherent in an unplanned economic system, and secondarily because of equilibrium differences between prices and values. Marx criticized Ricardo for focusing on the latter, "more superficial",[3] of the two kinds of deviations of price from value. The law of value serves to "maintain the social equilibrium of production in the turmoil of its accidental fluctuations".[4] Price movements in disequilibrium are its mode of operation:[5]

> Magnitude of value expresses a relation of social production, it expresses the connection that necessarily exists between a certain article and the portion of the total labour-time of society required to produce it. ... The possibility, therefore of quantitative incongruity between price and magnitude of value, or the deviation of the former from the latter, is inherent in the price-form itself. This is no defect, but, on the contrary, admirably adapts the price-form to a mode of production whose inherent laws impose themselves only as the mean of apparently lawless irregularities that compensate one another.

This was said, it should be noted, early in the first volume of *Capital*. The Marxian law of value is an example of the Hegelian notion of a general necessity asserting itself in the pattern of particular accidents.[6] Marx's phrasing repeatedly suggests this origin:[7]

> The *a priori* system in which the division of labour, within the workshop, is regularly carried out, becomes in the division of labour within society, an *a posteriori* nature-imposed necessity, controlling the lawless caprice of the producers and perceptible in the barometrical fluctuations of the market prices.

The same idea recurs in Marx's bitter reaction to criticism of his discussion of value in the first volume of *Capital*:[8]

[1] F. Engels, "Preface", K. Marx, *The Poverty of Philosophy*, p. 21.
[2] *Capital*, vol. III, p. 745.
[3] *Theories of Surplus Value*, p. 252.
[4] *Capital*, vol. III, p. 1026.
[5] *Ibid*, vol. I, pp. 114–5.
[6] "... dialectics reduced itself to the science of the general laws of motion .. these laws assert themselves unconsciously, in the form of external necessity in the midst of an endless series of seeming accidents." F. Engels, "Ludwig Feuerbach and the End of Classicial German Philosophy," Marx and Engels, *Basic Writings on Politics and Philosophy*, ed. L. S. Feuer, Garden City, 1959, p. 226.
[7] *Capital*, vol I, p. 391.
[8] *Selected Correspondence*, pp. 246–7

> The nonsense about the necessity of proving the concept of value arises from complete ignorance of the subject dealt with and of the method of science . . . this necessity of distributing social labour in definite proportions cannot be done away with . . .
>
> The science consists precisely in working out *how* the law of value operates. So that if one wanted at the very beginning to " explain " that law, one would have to give the science *before* the science. It is precisely Ricardo's mistake . . . in his first chapter on value . . .
>
> The vulgar economist has not the faintest idea that the actual every-day exchange relations need not be directly identical with the magnitude of value. The point of bourgeois society consists precisely in this, that *a priori* there is no conscious social regulation of production.

The allocational rôle of price movements was the basis of Marx's uncompromising opposition to all socialist schemes for establishing the labour values of goods by government fiat.[1] In the Marxian system it was not the labour actually expended ("concrete", "qualitative", " individual " labour[2]) which constituted value, but the labour which should be expended ("abstract", "quantitative", " social " labour[3]) given both technical conditions and the demand for the commodity. Marxian " socially necessary labour " was not a mere technological concept as often assumed. For Marx " the socially necessary labour-time is . . . the labour-time which is required for the satisfaction of the social need (the demand)".[4] For example, "suppose that every piece of linen in the market contains no more labour-time than is socially necessary. In spite of this, all these pieces taken as a whole may have had superfluous labour-time spent upon them".[5] If there is optimal, equilibrium allocation " then the products of the various groups are sold at their values . . . or at prices which are modifications of the values or prices of production due to general laws".[6] These modifications have bulked large in the literature on Marxian economics, primarily because of their importance from the point of view of the kind of price-theory criticism exemplified by Bohm-Bawerk, rather than because of their intrinsic relevance to the argument actually advanced by Marx.

The Marxian " law of value " focused attention on the allocational mechanism at work in otherwise unco-ordinated capitalism, with emphasis on the possibilities of misallocation " since a balance is an accident under the crude conditions of this production".[7] His reproduction schemes in the second volume of *Capital* were illustrations of the intricate adjustments necessary for equilibrium even under highly simplified conditions. All of this had obvious relevance to the socialist alternative in the near background. It also had relevance to another feature of capitalism emphasized by Marx—recurrent depressions or "crises".

[1] See p. 298, footnotes 1–4.
[2] *Capital*, vol. I, pp. 54, 58, 67; *Critique of Political Economy*, pp. 23, 24, 33–4.
[3] *Capital*, vol. I, pp. 223, 51, 67; *Critique of Political Economy*, pp. 23, 24, 33–4.
[4] *Theories of Surplus Value*, p. 399.
[5] *Capital*, vol. I, p. 120. [6] *Ibid.*, vol. III, p. 745.
[7] *Ibid*, vol. II, Chicago, 1925, p. 578.

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III. Prices and Crises

Price fluctuations were important in the Marxian system not only because of their allocational rôle but because the constant necessity of price fluctuation introduced the constant possibility of *violent* price fluctuations, leading to sporadic economic crises and depressions. " Violent fluctuations of price . . . cause interruptions, great collisions, or even catastrophes in the process of reproduction."[1] While there are tendencies of the various sectors of the economy toward equilibrium by the competitive process, " the continuity of this process itself equally presupposes the constant disproportion, which it has continuously, often violently, to even out".[2]

In 1847 Marx set forth the germ of the idea which he was to develop more than twenty years later in *Capital*:[3]

> The economists say that the *average price* of commodities is equal to the cost of production; that this is a *law*. The anarchical movement, in which rise is compensated by fall and fall by rise, is regarded by them as chance. With just as much right one could regard the fluctuations as the law and the determination by the cost of production as chance. . . it is solely these fluctuations, which, looked at more closely, bring with them the most fearful devastations and, like earthquakes, cause bourgeois society to tremble to its foundations . . .

This was one of the many areas in which Marx's thought remained unchanged from his early years to the end of his life. Even the assertion that it was " solely " price fluctuations which precipitated crises remained a part of Marx's theory of economic downturns, which was entirely a theory of disproportionality. Under static conditions it might be expected that price oscillations would settle down to the cost of production, but Marx saw capitalism as inherently dynamic, with irregularly declining costs of production among the various commodities, and shifting proportions within the growing mass of output. In earlier periods a more stable output was geared to a more or less known demand. But now, according to Marx, an ever-increasing supply was dumped on the market in anticipation of raising demand.[4] The opportunity for miscalculation was growing along with output.

In Marx's theory of crisis — he had no theory of the business cycle as a whole — it was fixed contractual obligations which enabled disproportionality and attendant price fluctuations to precipitate crises. Over-producing firms or industries find profits declining below anticipated levels while " fixed charges . . . remain the same, and in part cannot be paid. Hence crisis."[5] This was not to say that any departure from equilibrium would produce a crisis. Some indefinitely defined

[1] *Ibid.*, vol. III, p. 140.

[2] *Theories of Surplus Value*, p. 368.

[3] K. Marx, " Wage Labour and Capital ", Marx and Engels, *Selected Works*, Moscow, 1955, vol. I, p. 87.

[4] *The Poverty of Philosophy*, pp. 75–6; *Capital*, vol. II, p. 86.

[5] *Theories of Surplus Value*, pp. 390–1.

magnitude of shock to the system was necessary, in order to produce a sufficient disturbance of confidence, a scramble for liquidity[1] and a monetary contraction. " At a given moment the supply of all commodities may be greater than the demand for all commodities, because the demand for the general commodity, money, exchange value, is greater than the demand for all particular commodities . . . "[2]

Once the crisis is under way, even those sectors of the economy which had not been guilty of over-producing " are now suddenly in relative overproduction, because the means to buy them, and therewith the demand for them, have contracted. Even if there has been no overproduction in these spheres, now they are overproducing."[3] Thus, " in times of general overproduction the overproduction in some spheres is always the result, the *consequence*, of overproduction in the leading articles of commerce . . . ".[4] Marx never advanced the crude theory that " too much of everything " was produced. He used the term " over-production " somewhat freely, perhaps to emphasize his differences, to be discussed below, with the under-consumptionists. However, this " over-production " was in reality only disproportionate production: " If production were proportionate, there would be no overproduction."[5] While, in analytic essence, this is simply a re-statement of the classical view that production is not excessive in the aggregate but only maladjusted in its internal proportions, Marx did not — like the classical economists — treat this disproportionality as an adventitious consequence of governmental interference or of re-conversion from war to peace. Rather, it was regarded as inherent in a constantly growing capitalist economy which would never allow the respective equilibrium quantities of commodities to be discovered by producers.

Over-production and under-consumption were not simply different names for the same thing, in the senses in which Marx used these terms. Marx's discussions of under-consumption referred to what might be called a socialist version of under-consumption—the fact that workers were not paid enough to purchase the total national output. While this fact was acknowledged by socialists and non-socialists alike, it linked up with the socialist concept (not theory) of exploitation and issued as the assertion that the worker was not paid enough to " buy back " what he had produced (the latter being defined as his average product rather than his marginal product). While the essentially sociological first volume of *Capital* developed this traditional socialist concept of exploitation, this idea played a very peripheral rôle in Marx's purely economic analysis, though it accounts for certain isolated Marxian phrases which have provided a

[1] *Ibid.*, pp. 380, 388–9; *Capital*, vol. III, pp. 543, 602; *Critique of Political Economy*, p. 198.
[2] *Theories of Surplus Value*, p. 392.
[3] *Ibid.*, p. 401.
[4] *Ibid.*, pp. 408, 393.
[5] *Ibid.*, p. 411.

tenuous basis for assuming Marx to be an under-consumptionist, a forerunner of Keynes,[1] and a believer in the economic " breakdown " of capitalism.[2]

Marx was uncompromisingly opposed to the idea that under-consumption was the precipitating factor in crises:[3]

> It is purely a tautology to say that crises are caused by a scarcity of solvent customers, or of a paying consumption . . . If any commodities are unsaleable it means that no solvent customers have been found for them . . . But if one were to attempt to clothe this tautology with a semblance of a profounder justification by saying that the working class receive too small a portion of their own product, and the evil would be remedied by giving them a larger share of it, or raising their wages, we should reply that crises are precisely always preceded by a period in which wages rise generally and the working class actually get a larger share of the annual product intended for consumption. From the point of view of the advocates of " simple " (!) common sense, such a period should rather remove a crisis.

Engels also declared in his *Anti-Duhring*, written in close collaboration with Marx:[4]

> . . . the underconsumption of the masses . . . has existed as long as there have been exploiting and exploited classes. Therefore, while under-consumption has been a constant feature in history for thousands of years, the general shrinkage of the market which breaks out in crises as the result of a surplus of production is a phenomenon only of the last fifty years . . .

The surplus of production referred to was a surplus in particular industries, since it was monetary contraction, " the general shrinkage of the market", which precipitated downturns. There was no general over-production in the Marxian system: " There would be no over-production at one point if overproduction took place at all points in equal degree."[5] But this cannot happen because at any given time " capitalistic production is only able to let itself go without restraint in certain spheres, in definite conditions"; it cannot " develop in all spheres *simultaneously* and in equal degree".[6] Apparently this was meant as an historical generalization. No reason was given why it should be so. Again Marx essentially endorsed the classical view that there could be no general over-production. His sweeping attacks on Say's Law differed little— if at all—analytically from John Stuart Mill's steadfast defence of it. Points conceded, in passing, by one were simply

[1] Cf. Joan Robinson, *An Essay on Marxian Economics*, 1957, pp. 43–51, 71; L. R. Klein, *The Keynesian Revolution*, 1954, pp. 130–4.

[2] P. M. Sweezy, *The Theory of Capitalist Development*, 1956, Ch. XI; J. A. Schumpeter, *op. cit.*, pp. 687, 748–9, 1131.

[3] *Capital*, vol. II, pp. 475–6.

[4] F. Engels, *Herr Eugen Duhring's Revolution in Science*, New York, 1939, p. 312.

[5] *Theories of Surplus Value*, p. 411.

[6] *Loc. cit.*

treated as being the heart of the matter by the other.[1] Each denied that too much of everything could be produced, and each affirmed that monetary contraction could cause a temporarily deficient demand.

Marx repeatedly argued, in opposition to the under-consumptionists, that consumption tends to increase in the period immediately preceding a crisis.[2] Yet he also asserted that " the last cause of all real crises always remains the poverty and restricted consumption of the masses . . . ".[3] The apparent contradiction is explained by a difference in the frame of reference of the two statements. Although under-consumption in the socialist sense was not considered to be the precipitating factor in crises, it was considered to be part of the institutional framework which made crises possible: " If overproduction could only occur after all members of the nation had satisfied even their most essential needs, in the history of bourgeois society up to the present not only no general overproduction but even no partial overproduction could have occurred."[4] The point of view here is no longer that of someone theorizing as to causal sequences, but of someone philosophizing over the institutional constraints of capitalism, especially as they bear on the poorer classes. Substantively, the statement says only what Marx had said elsewhere, that production " comes to a standstill at a point determined by the production and realisation of profit, not by the satisfaction of social needs ".[5]

In arguing that Marx was an under-consumptionist, P. M. Sweezy surmised that Marx *would have* developed an under-consumptionist theory of the downturn had he lived to complete *Capital* himself. Sweezy declared: " This does not necessarily mean, however, that a decline in output must occur first in the consumption-goods department . . . Marx's silence on this issue merely shows that he had never worked the " under-consumption " theory out in any detail."[6] But Marx was not silent at all as to whether a crisis must " necessarily " break out in the consumption-goods sector. In fact, he declared the very opposite: " . . . crises do not show themselves, nor break forth, first in the retail business, which deals with direct consumption, but in the spheres of wholesale business and banking . . . "[7] Nor is there a tenable compromise in the supposition that the Marxian system involves some " crises arising from disproportionality " and other " crises arising from under-consumption ".[8] Under-consumption is the " last cause " of *all* crises in Marx's plainly expressed view — without being the immediate cause of any.

[1] Marx, *Theories of Surplus Value*, pp. 368–414; J. S. Mill, *Principles of Political Economy*, book III, ch. XIV.
[2] *Capital*, vol. II, pp. 86, 362, 475; *Ibid.*, vol. III, pp. 359, 528, 567.
[3] *Ibid.*, vol. III, p. 658.
[4] *Theories of Surplus Value*, p. 394.
[5] *Capital*, vol. III, p. 303.
[6] P. M. Sweezy, *op. cit.*, p. 176.
[7] *Capital*, vol. III, p. 359.
[8] P. M. Sweezy, *ibid.*, ch. XI.

The assumption that Marx believed in the economic " breakdown " of capitalism is wholly unsupported by anything in Marx's own writings. Even such scholars in this area as Sweezy and Schumpeter have been unable to cite anything in support of their " breakdown " interpretation except other post-Marxian literature. Thorstein Veblen pointed out more than half a century ago that there was no such theory in Marx[1]; apparently later scholars have felt no need either to cite such a theory or to revise their interpretation. Marx spoke of crises as " transient "[2] and " momentary "[3] phenomena. He said: " There are no permanent crises."[4] Crises are important in his overall vision for their rôle as spurs to revolution. It is these " crises that by their periodical return put the existence of the entire bourgeois society on its trial, each time more threateningly ".[5] Thus Marx was able to say, with some poetic licence, that capitalism destroys itself by its own internal contradictions. The word " contradiction " has been cited in support of the " breakdown " interpretation of Marxian theory[6]; but Marx used the term " contradiction " in its peculiarly Hegelian sense — internal conflicting forces leading to transformation rather than impasse. " Contradiction " was, in Hegel's words, " the very moving principle of the world . . . "[7]

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[1] Thorstein Veblen, " The Socialist Economics of Karl Marx and His Followers ", *Quarterly Journal of Economics*, vol. 20 (1906), p. 591.

[2] *Capital*, vol. III, p. 568.

[3] *Ibid.*, p. 292.

[4] *Theories of Surplus Value*, p. 373n.

[5] Marx and Engels, " The Communist Manifesto ", *A Handbook of Marxism*, ed. E. Burns, New York, 1935, p. 29.

[6] Bernice Shoul, " Karl Marx and Say's Law ", *Quarterly Journal of Economics*, vol. 71 (1957), p. 626n.

[7] G. W. F. Hegel, *The Science of Logic*, tr. W. Wallace, London, 1892, p. 223. This is not meant to suggest that the *substance* of what Marx said derived from Hegel.