



KARL MARX

AND THE CLOSE OF HIS SYSTEM

A Criticism

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WITH A PREFACE

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PREFACE

THE work here translated was one of a series of independent Essays on Political Science, drawn up in 1896 in honour of the aged economist, Professor Karl Knies, and in quaint testimony to the fruitfulness of his example.

Professor Böhm Bawerk's contribution to the series was not a mere review of another man's latest book. It was one of those rare critical estimates that kindle light when they seem to be merely quenching it. It will be found free from rhetoric. The subject is for argument, not declamation; and it is so treated in the essay before us. There are few better models of calm and close economic reasoning than the writings of Professor Böhm Bawerk.

So far as so condensed a document can be condensed again, the course of it may be given with some freedom as follows, the usual

reservations and qualifications of all economic discussion being taken for granted.

1. In the first volume of his *Capital* (1867), Marx professed to explain the profits of capital by a theory which resolved exchange value into labour and nothing but labour. Goods, exchange according to the labour they have cost, the said labour being measured by the time it necessarily takes. Labour, in the same way, exchanges for its cost in labour; it exchanges for the equivalent of the labourer's necessities of life. But, as the labourer is at the mercy of the employer, the employers can make him work far longer than is enough to provide these necessities. He will get this bare sufficiency as his wages; but, besides producing the equivalent of his subsistence, he will produce, in the unnecessary or additional "unpaid" hours of his working day, a surplus product yielding a surplus value—the source of profits to the employers.

This is the foundation, and the soundness of it is doubtful. The proposition that all value is labour is assumed without proof; and it is a matter of common experience that goods do not exchange only according to the labour

they have cost. The reader of the first volume of *Capital* is often perplexed by the continual convertibility of the terms "value" and "labour," and there are no arguments to show why the two should be convertible. Professor Böhm Bawerk has not exaggerated the dogmatic character of this part of the work of Marx. It has been well said by Sloninski (*Karl Marx' Nationalökonomische Irrlehren*, Berlin, 1897, translated from the Russian) that in assigning to labour a unique power to produce value Marx falls into the same fault as the French Economists of the eighteenth century, who assigned it to the land. He falls into metaphysics, in the bad and obsolete sense of the word.

2. Suppose the definitions to be granted, and allow that the goods of everyday experience are sold at their cost price in labour alone, we do not find that the profits of everyday experience go up and down with the amount of labour as distinguished from the amount of fixed capital employed. Our everyday capitalists expect profit not only on their outlay in wages, but on their whole capital, fixed or circulating. Those

who employ much labour and little machinery do not get a higher rate than those who employ much machinery and little labour; rather the contrary. Yet the first have the larger opportunity of procuring surplus value by working their men beyond necessary time for nothing.

Marx himself recognised that there was a difficulty here (see below, p. 24), and he promised that the solution would be duly given. He died in March, 1883, and the promise made in 1867 was not fulfilled till 1894, when his friend and executor, Engels, published the third volume of *Capital*, on the "Process of Capitalistic Production as a Whole." The intermediate volume, on the "Process of the Circulation of Capital," published by Engels in 1885, gave no light on the matter, but contained the challenge described in the present essay (below, p. 25). It is fair to add that Professor Lexis gave substantially the right answer (see Preface of Engels to vol. iii. pp. xi.-xiii.)

3. The "right answer," or rather the answer made by Marx, is that the everyday rate of profits depends on the proportion between the whole volume of capital and the whole volume of surplus value; the whole surplus value is

the amount to be distributed ; it is distributed to all the capital, constant or variable ; the competition of capitalists so distributes it that no class of them gets on the whole a larger share than another ; the rate of profit, instead of varying with the amount of unpaid labour in the particular cases, varies with its amount over the whole field. It is reduced by competition to an average that may be above or may be below the amount of surplus value in the particular cases. The goods sell no longer at their "labour-value," or cost price in labour, but at their "price of production," which includes profit in the sense explained. They are no longer "wares," but "products of capital" (iii. i. 154).

The idea that competition brings profits to equality is an old friend. Something of the kind has been in all the text-books of classical economics for above a hundred years. The novelty is that surplus value, though scarce suspected, animates the whole. This at least is the contention of Marx, who tries hard to explain away the contradiction between his first book and his third. He points out that in the total dividend of profits, described above, the surplus

value is not absent though hidden. The total dividend consists of surplus value, though, in the sharing, it may often go where there is little or no unpaid labour, or where there is far more unpaid labour than corresponding profit to the particular employer. But his critic tells him that such a total obliterates the individual cases, does not explain their persistent differences, and has not been reached by them or through them. Again, Marx urges that in the particular cases the "labour-value" is the "average" to which fluctuations gravitate. But, as he himself states the position, they do not really gravitate towards the "labour-value," or there would be a tendency towards inequality, not towards an equal rate of profits. We have here, too, a false use of the word "average" (below, p. 76). Marx points out that, where the working time falls, prices fall, and where it rises prices rise, other things being equal. But the question is not if labour is one cause of value, but if it is the only cause; and the "other things" are so often not equal that they also need consideration. Again, he declares that, wherever the present "capitalistic system" does not prevail, prices follow his law of value, and

that this is so with labouring proprietors and independent artisans. But, if primitive man is meant, we are driven to probabilities, and the probabilities are against the contention of Marx (see below, pp. 87 *seq.*) If the reference is to our own time, the facts lend no support to him. When opportunities have arisen for observing the transition from independent production to the modern "capitalistic" system, it does not appear that the modern system has first fastened on such industries as need most labour and least machinery. Finally Marx claims that his law of value determines prices indirectly, both by determining the total amount of value including the wages, and by determining the surplus value. But the total value, if the phrase has any meaning, cannot any more than any other total determine its own partition, and if we take the wages as fixed we are making an assumption which Marx himself says is not always justified (see below, p. 114), and which indeed does not seem justifiable at all (117, &c.).

The criticism of Professor Sombart, with which the essay ends, seems to dispose of the idea that there can be a middle course in our

judgment of the theory of Marx. Without contending for such a *via media*, or disagreeing in the least with the Professor's verdict, some of us might advance a plea in mitigation of sentence. The long delay in the completion of the theory does not prove that Marx was not in full possession of the complete theory himself from the first. It may have been with him as with Wendell Holmes: "I was just going to say when I was interrupted"—the interruption lasting in the Autocrat's case twenty-five years; or as with John Stuart Mill when he thought it well to "say a little more than the truth in one sentence and correct it in the next." That the correction was long in coming and took the form of desultory and fragmentary remarks (see below, p. 66) is matter for indulgence. Marx did not live to finish his work, and Engels (now also unhappily gone from us) was left to grope among ill-written manuscripts, and with infinite pains to put scattered notes together into chapters of a book. But the notes were written in 1864-5 (Engels, Pref. to vol. ii. page v.), and, if Marx had not been interrupted by

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the *International*, he would probably have finished his book in his own lifetime, with many surplus years to spare for defence of it after publication.

The charm of the writings of Marx lies, perhaps, chiefly in the tenacity and confidence with which he applies his key to lock after lock. In this respect, though in spite of our author (221) perhaps in few others, he is like Hegel. He never doubts his key will open all locks; and, though occasionally he is content to tell us to apply it for ourselves, he leaves the impression that his system is equal to all emergencies. Professor Böhm Bawerk has shown that its adequacy is only apparent, and he might easily have added to the instances. For example, Marx says that his theory is thoroughly in keeping with the observed "tendency of profits to a minimum"; profits fall because constant capital is substituted for variable; machinery drives out hand-labour; there is therefore less labour in proportion to the capital invested, and therefore less surplus value (iii. i. 227; see below, p. 98). It is of course hard to understand why, on this theory, it should ever be the employer's interest to

substitute machinery for hand-labour,^c and therewith a less surplus value for a greater. It will be in the end a greater for a less, Marx answers (i. 2nd ed. 452 *seq.*, *cf.* 426, 1st ed. 376, 397), for machinery increases the power of the masters and dependence of the men. What does he say, then, to the instances where the men depend on no master? In a business where the employers are the workmen themselves, how can the profits be derived from unpaid labour? Their manager is not their employer but their servant, and his wages are part of their "variable capital" (compare Marx iii. i. 374, and i. 1st 313, 2nd 340). Marx himself remarks that [about 1864] the co-operative factories got a higher rate of employer's profit than private firms. "This was due to greater economy in the use of the constant capital. The claim of the socialist," he continues, "is to reduce the employer's profit to mere wages of management, and the co-operative societies and the joint stock companies are a standing proof that the two functions, management and the receiving of profits, can be easily separated" (iii. i. 374-5). Co-operative factories, in the sense of partnerships of work-

men, were less common thirty years ago than they are now, or Marx might have thought it worth his while to give more than a passing thought to the relation between capital and labour there. When (as too seldom happens) all the shareholders in a business are workers, they may regard the profits as deferred wages, such postponements having an analogy to a familiar feature of distributive co-operation in this country. In any case, how are the profits traceable to unpaid labour? Marx might have been expected to deny that they involved capital in his sense at all (see below, p. 83) for there is no employment of one man for the gain of another. But he admits it when he says in so many words that such groups receive "profits" even greater than the average (iii. i. 374-5). As things are now, this might be one of the cases where the distribution of profits by competition gives profits to a capital over the amount of the surplus value produced (see below, pp. 55, 71); and we need not discuss what would happen if such groups ever came to occupy nearly the whole field instead of (as now) a small corner of it. If we are nearer the co-operative commonwealth now than we

were thirty years ago, it is partly through the grim invectives of Marx and Engels and the sweeter reasonableness of our own English socialists, for whom Engels has nothing but bitter words (iii. Pref. p. xii.). Socialism does not stand or fall with Marx, any more than it began with him (see below, p. 220). Marx himself was probably socialist first and economist afterwards; his economics probably came into being to explain his socialism (*cf.* 150). There seems to be a truth in Professor Sombart's apology (see below, p. 193). The idea that value is labour may have been to Marx "a fact not of experience but of thought." He may have been describing not what is, but what, in his opinion, ought to be; all value ought to be labour, and when capital is in the proper hands it will be so. This last anticipation will be regarded by many of us as doubtful. Professor Wieser in his book on *Natural Value* (188 p. 59, &c.; Engl. Transl. 1893, pp. 60 *se* has shown how the phenomena of interest, profits, and rent, will still remain with us even if all the means of production are made common property. The same lesson may be learned from Professor Böhm-Bawerk's *Positive Theori*

of *Capital* (1889; Engl. Transl. 1891), and from many passages in his present essay (especially 88 to 94).

✧ Mrs. Murray Macdonald desires to express her obligations to the author and Professor Wieser for revision of her work in proof, and to Miss Louise Markup for help in translation.

“ The author’s chief works have been for some years before the public in an English dress, and are well known here and in America. We may hope that the present book will meet with the same welcome.

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