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EASY OUTLINES
OF ECONOMICS



NOAH ABLETT

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EASY OUTLINES OF ECONOMICS

BY

NOAH ABLETT

(South Wales Miners' Federation)



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APOLOGIA.

THIS is not THE Plebs' text-book on Economics. It is merely the substratum of an ambitious dream. A series of articles I wrote for the *Plebs* in 1909, dealing with some controversial aspects of Marxian Economics, caused certain of my friends and the Plebs League to urge me to re-shape them into a text-book for the use of our classes. In a rash moment I yielded to persuasion, and, as a consequence, have been enabled to read Dante's *Inferno* with much greater understanding than formerly. However, I have attempted the task. I have failed. If any one of my readers should be anxious to console me, I will concede this to him—that one of the factors of my failure has been lack of time. To have accomplished even this fragment while carrying on the work of a Miners' Agent in these troublous times at least calls for the expenditure of some energy and "midnight oil." There are now, thanks to the Plebs and the C.L.C., many more students of Marxian Economics than there were in 1909. I am looking forward to the text-book that shall be written by one of them. Meanwhile, I offer this as a temporary stop-gap. . . . To the intending writer, who has my warmest good wishes, one word of advice. Don't forget, as I did, the old scriptural warning to the effect that it is a disastrous proceeding to patch old garments with new cloth.

The bulk of the work of typing this book for the printer has been performed by my friend James Reynolds. Without that assistance, and the invaluable aid of Mr. and Mrs. Horrabin in preparing material for the printer, etc., the work would have been very much delayed. I wish to record my thanks for their kind assistance.

What pains me most is that the impatience with which this little work has been expected will be exceeded by the disappointment at the result. The only consolation I can offer is the advice contained in another ancient saying, the authority for which I cannot quote, but the truth of which, applied to this book, my readers will be able to vouch for :—" Blessed is he that expecteth little, for he shall not be disappointed."

NOAH ABLETT.

January, 1919.

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CHAPTER I.

ECONOMICS AND EVOLUTION.

In the 20th century every system of thought which makes any pretence at being scientific must have an evolutionary basis. Hence this first chapter shows the part Marxian Economics plays in the whole general study of evolution.

THE evidence collected by the sciences with regard to the origin and development of our planet, examined from a very general standpoint, shows three great epochs distinctly marked, which sum up the whole of knowledge. These three epochs are:—

- (1) From the nebulous period to the origin of life ;
- (2) From the origin of life to the beginning of society ;
- (3) From the beginning of society to the present time.

They are, respectively, the Inorganic, the Biologic, and the Economic or Social evolutionary periods. The first, and by far the longest, the Inorganic, has to do with the transformation of matter from its nebulous condition to the forms of vegetable and animal life, whence it is clearly perceivable that the form which life (a mode of matter) takes, is determined by the material environment which creates it. This gives rise to the first biologic fact we need notice, viz., that the form of organic life is shaped (by adaption) by material surroundings. This takes place through contact. Life is differentiated or modified matter, but has no independent existence apart from matter. The degree of differentiation or modification is the true measure of what we call progress.

The second period has to do with the process of this modification. From the simple cell to the evolved human being represents a series of steps of increased differentiation from inorganic matter. Thus the stomach of the amœba is in direct contact with the outside world, while in the higher animals the stomach is a differentiated organism which never has direct contact. The physiological differences between species of animals are accounted for by the modes in which they come into contact with nature in the struggle for existence. This is the pre-eminent feature which stamps the Biologic period with an unmistakable impress.

In the third period the indirection of contact with nature receives a line of demarcation at once clear, distinct, and striking. This is the introduction of tools. The best definition of man ever yet given is that he is a tool-using (tool-making and tool-owning) animal. The tool prevents direct contact with nature, and as a result subordinates the biologic law of physiological alteration. Alterations in the physiology of man now practically cease, and *mind* becomes the most prominent responding medium. The changes in the indirect contact with nature now are determined by the changes in the tools of production; we have arrived at the economic and social period.

Society is not biologic—it is economic. Failure to notice this simple and striking fact, and its influence on systems of thought, is responsible for as much error in social science as ever phlogiston was in chemistry.* Let us quote, in substance, Untermann on this point. The division of labour among bees is responsible for the physiological structure of queen bees, workers, and drones. Each of these three types is clearly marked and cannot be confused. But the division of labour among men fails to produce the same effect in, say,

* J. R. Macdonald's book, *Socialism and Society*, is a glaring example (see Chap. X).

miners, weavers, and woodworkers. A king may be effectually disguised as a beggar, but a queen-bee cannot be disguised as a drone. A weaver, miner, or woodworker may, with a little practice, change occupations without the change being detected, but it is impossible for a drone to change occupations with a worker bee. The reason for this is that whereas bees are modified by actual contact with nature, men interpose tools and are not so modified. Having drawn attention to this important matter we shall now leave the first and second period and confine our attention to the third period, *i.e.*, the Economic or Social. Let us, however, not forget that, just as the changes in the forms of matter in the inorganic period are caused by the conflict of the chemical elements which composed it; and just as the changes in the animal species are caused by the struggle for subsistence, and the consequent survival of the fittest; so the changes in the forms of society are caused by the struggles of social classes.

We shall now examine the Economic period in a more detailed way. If we examined any system of society, since the introduction of private property, we should find it stratified into certain orders or social classes. And if we contrasted any two different systems of society we should find this stratification had undergone a change, and the social classes would be different. Why does one order of society give way to a new order? What causes the change? These questions, if they could be answered, would lay bare the law of motion in society. Economics is the science whose work it is to discover this law. Let us, however, explain more precisely what we mean by social classes and their change. Every one is aware of the systems of slavery and serfdom, and that these belong to different periods of time and forms of society. Wherein does the difference between these two consist and why did they change, the one for the other? When we speak of slavery or slaves we also infer the existence of another order or class, *viz.*, slave-owners. Similarly serfs suggest over-

lords, etc. These orders evidently then have reference to the mode of wealth production. As Economics deals with the production of wealth the answers to these questions belong to that science. Another way to examine a system of society is to look at its superstructural institutions, *e.g.*, science, government, art, law, politics, etc. Now all these superstructures are *relations*, not *things*. If we were asked wherein does primitive savagery differ from civilization, we should at once say in the number and character of these superstructural institutions. But if we sought the *cause* of these we should arrive at last at a difference of tools of production, and the changes of form of these superstructures would be definitely connected with the change of tools. Thus Feudal literature, Greek art, Roman law, and modern science are different in proportion, and in strict relation to the different economic systems. But what would surprise us most would be that the only *material* difference between savagery and civilisation that we could find would be the difference of the tools and their products. That is to say that the only real and material things that mark us off from savagery are—commodities.

We have described superstructures as relations, but relations cannot exist except on a basis of reality. Commodities are the only realities. Hence science, politics, art, etc., are related to commodities. How are they related? They are all different methods of assisting in the production of commodities. But there is a closer relation than that. Whenever a society changes from one system, *e.g.*, slavery, to another, *e.g.*, serfdom, the change that takes place is primarily an economic one. But this causes changes in all the superstructures. Government, art, literature, ethics, etc., have to change and adapt themselves to the new order. The changes are gradual or sudden according to necessity, the pace being regulated by the resistance offered by an institution to the new mode of production. In proportion to the resistance will the revolutionary forces be strong or

otherwise. Thus the Reformation was quick and decisive because of the impossibility of the holidays of Catholicism, and the development of the growing and powerful capitalist class, existing together. Enough has been said to show in general outline the theory of the movement of society. To its more detailed inner workings we shall proceed when dealing definitely with Economics. One word more on differences of social systems, and then we proceed to the object of this book. If we examined a geological stratum and wanted to identify it we should examine its fossils. Those that belonged peculiarly to it, and to no other, would determine its name and location. So also in society the various orders such as slavery, etc., show, just as exactly and precisely, the particular economic system to which it belongs. Hence we see that although society appears chaotic, it is in reality governed by law. These laws of social growth and change, which the genius of Karl Marx formulated, provide the "Open Sesame" to this otherwise chaotic mixture for the earnest and diligent student of Economics.

CHAPTER II.

COMMODITIES AND VALUE.

A *COMMODITY* may be defined as an article or service produced by human energy for the purpose of exchange. The analysis of commodities, and the social relations they give rise to, form the whole subject-matter of economic science. It is therefore of great importance that the student memorises and studies the above definition. It is not enough that an article should be produced by human energy to become a commodity. It must in addition be produced for a specific purpose—the purpose of exchange. Furthermore, before it has completed its functions as a commodity, it must be exchanged. In the process of exchange there must be two persons—say A and B—who own commodities. Thus then, ownership, private or individual, is implied, as a pre-requisite for the exchange of commodities. A owns a commodity that he doesn't require for his own use, whereas he is in need of the commodity owned by B. Conversely, B has no use for his own commodity, but is in need of the commodity owned by A. Here, then, are the necessary conditions for an exchange of commodities.

Are these conditions always and at all times present? No. There have been communities where private ownership was not recognised, and did not exist. In such a society there could be no commodities. In all societies previous to the present capitalist society, only a small, but perhaps increasing, fraction of goods produced were produced for the purpose of exchange. So that in these societies the normal condition would be that goods were not commodities. In our own day of fully fledged capitalism only a very insignificant frac-

tion of goods produced are not commodities. This definition of commodities, then, has a historic as well as an economic significance. This is very important, as we must never forget, in our study of Economics, that while we are concerned with the present, the present is a continuation of, or has evolved from, the past.

Commodities, then, are the typical and almost exclusive products of capitalism. As Marx puts it; "The wealth of those societies in which the capitalist mode of production prevails presents itself as an immense accumulation of commodities, its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity."

Use-value and Exchange-value.—The first noticeable feature in the analysis of a commodity is that it is a compound of two values. Thus a chair has a value in its use, or its use-value. That is, it is useful for the purpose of sitting upon. On the other hand, it has a value in exchange, or an exchange value. That is, it can be exchanged for, say, a fountain pen, a watch, etc. Of these two values Economic Science is mainly concerned with exchange-value. Why? Because the use-value of a commodity has no bearing on its exchange value. Economics is concerned with use-value only in so far as it is present in a *commodity*, and that fact must always be presumed because an article cannot become a commodity unless it contains use-value. But the investigation of use-value is a question of chemical properties, or general attributes of an object. Its estimation is often a matter of individual taste or fancy. The main object in the production of commodities is not to produce use-values. It is—to produce exchange-values. The capital subscribed to the coal-mining industry is not subscribed for the purpose of extracting coal from the earth, or because coal has a use-value in the production of steam, etc. The coal-owner does not want the coal; he only wants other people to want it; people who are prepared to give other commodities, the possession of which will make the coal-owner rich in exchange for

the coal. To-day there may be a great flow of capital into the brewing industry; to-morrow it may be used for the production of Bibles to the heathen; at one time it may be subscribed for building a railway to promote progress in some uncivilized region; at another it may be used for producing guns to blow to pieces the uncivilized natives who perhaps object to be civilized by means of the railway.

So we have the spectacle of a world engaged in the production of commodities which are to their owners non-use-values. Indeed it would be easy to show that millions of tons of commodities have been deliberately destroyed rather than that their use-values should be appropriated at too low a price. In times when there is what is termed a "glut" in the market, these happenings are fairly frequent, as anyone may discover who cares to inquire. Apart altogether from this, it should be fairly obvious that in a society based on the exchange of commodities, where the whole purpose of production is exchange, the investigation of use-value is irrelevant in a discussion where the principles regulating exchange-value is in question. Therefore, whenever the term Value is used in this book it is value in exchange that is referred to.

What is Exchange Value?—Many writers of Classical Political Economy—as distinct from modern orthodox economists, called by Marx "Vulgar Economists," for reasons we shall describe later—have indicated more or less clearly theories of exchange-value based on Labour. A brief history of the more important of these is given in the next chapter. But the Marxian theory of Value differs from all these theories because it is based on SOCIAL LABOUR. Let us examine this question of Value very carefully, because upon it is based the whole structure of Economic Science.

What is the question? The question is—What is the principle, in the exchange of commodities, that determines what proportion of a given commodity shall

be given in exchange for other commodities? Marx gives the following definition of this principle—"The value of one commodity is to the value of any other as the labour-time necessary for the production of the one is to that necessary for the production of the other." The word "necessary" in the definition above is of great importance, and Marx elsewhere calls it "Socially necessary," and defines it as follows:—"The labour-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time." He gives an illustration of this by pointing out that when the power-loom was introduced into England the labour necessary to weave a certain quantity of yarn into cloth was reduced by one-half. Those who still used the old hand-loom took twice the time to produce the work done by the power-loom weavers. But on the market the price of cloth was reduced by one-half, thus showing that as the time **SOCIALLY NECESSARY** to produce cloth had fallen, so the exchange-value had fallen, and consequently the price. So the labour-time socially necessary is not measured by the work of any individual, but by "the normal conditions of production, and . . . the average degree of skill and intensity prevalent at the time."

Production then appears in the shape of vast armies of workmen engaged in all the different industries transforming nature into commodities. The commodities bear in themselves the human energy transferred from the bodies and brains of the workers. They appear on the market to be exchanged the one for the other. To exchange one thing for another is to equalise both. What is it that makes them equal? Say the one is a chair and the other a watch. They were both, as raw material, of a very different character. That they were exchanged on the market proves that they possessed something that was common to both, however different they looked. What was it? They were the embodiments of a common human energy. But did they

contain equal quantities of human energy? Yes, according to the law of the market which measured them as products of the "normal conditions of production (containing) the average degree of skill and intensity prevalent at the time."

The "normal" condition of industry, paradoxical as it may sound, constantly varies, otherwise we should become a stagnant instead of a progressive society, but at any given time, *through competition*, the values of commodities are measured according to the social labour contained in them. This is one of the great discoveries of Marx—one which had previously eluded all efforts of the economists, and, as we shall see in future chapters, of enormous significance.

Wealth, Value, and Labour.—Wealth must not be confused with value. Value, as we have seen, is human energy, or Social Labour. But wealth is merely the material upon which human energy is expended. Thus coal in the bowels of the earth, timber in virgin forests, etc., is wealth. But before this wealth is transformed into values, social labour must come into contact with it, and only in the proportion that that labour has been engaged in its transformation into commodities does wealth become value. Use-values of all kinds are wealth. Thus air is a use-value and is also wealth, but when social labour comes in contact with it and compresses it for the purposes of industry, it then becomes compressed air—a commodity and an exchange-value. When social labour is properly understood, as in the foregoing, social labour is value, and value is social labour. They are two names for the same thing. The absurdity of the old question that puzzled all the economists, the question, What is the value of labour, becomes apparent. They went wrong because they were trying to answer the wrong question. We shall deal with the right question and the right answer later.

CHAPTER III.

EVOLUTION IN ECONOMICS.

JUST as, in the study of Biology, commencement is made with a cell, so in the study of Economics we commence with a commodity—because it is the unit, the multiplication of which comprises the whole wealth of society. In order to explain the exchange of commodities a theory of value must be worked out as a basis from which the other relations which the exchange of commodities gives rise to can be explained. Hence, in a logical system of Economics, when once you have stated the theory of value all other conclusions can be deduced. So in giving the following brief sketch of the history of the development of Economics *the difference between them can best be shown by examining the difference in their ideas as to value.*

Roughly speaking, there have been six schools of thought in the province of Economics, viz. :—(1) Ancient, (2) Mercantile, (3) Classic, (4) Physiocratic, (5) Marxian, (6) Utility. One of the great discoveries of Marx, a discovery which completely revolutionized the study of history, is that Ideas, Theories, and Systems of Thought come, not from the clouds, but from the material conditions of the period in which they arise. "The mode of production in material life determines the general character of the social, political, and spiritual processes of life." Therefore in examining the various schools of thought in the development of economic science, we have also added a note giving the broad features of the economic conditions of the period as an illustration of this discovery.

1. The Ancient School.—Grecian Period.—The chief exponent of this school was **Aristotle**. Other writers

were **Zenophon** and **Plato**, whose ideas, however, would now be described as speculative ethics. They bear a close relation to what is now taught in the University under the euphonious titles of Political Philosophy, Political Science, and sometimes privately and confidentially described as Sociology. Aristotle was conversant with the difference between the use-value and exchange-value of goods. "Of everything we possess there are two uses: one the proper and the other improper, or secondary, use of it. For example, a shoe is used for wear, and is used for exchange; both are uses of the shoe. . . . The same may be said of all possessions." * The second great merit of Aristotle was to point out that exchange implies equality: "5 beds equal 1 house is not to be distinguished from 5 beds equal so much money." Again: "Exchange cannot take place without equality and equality without commensurability." If Aristotle had been asked why 5 beds are commensurable with 1 house he would have been unable to answer correctly. It is of interest to us to know why he could not do so. Every scientific school since his time agrees that the answer is—human labour. Aristotle failed in this direction because "Greek society was founded upon slavery, and had therefore for its natural basis the inequality of men and their labour powers. The secret of the expression of value, namely, that all kinds of labour are equal and equivalent, because and so far as, they are human labour in general, *cannot be deciphered*, until the notion of human equality has already acquired the fixity of a popular prejudice. This, however, is possible only in a society in which the great mass of the produce of labour takes the form of commodities, in which, consequently, the dominant relation between man and man, is that of owners of commodities," ** *i.e.*, modern capitalist society.

* Jowett's translation of Aristotle, Vol. I., p. 15. Quoted by Marx.

** Marx, *Capital*, Vol. I., p. 29.

Aristotle's genius plumbed the very depths of the society of his time; and before any further progress could be made in economic theory the conditions of production had to be changed.

Prevailing Economic Conditions.—Labour was performed by slaves, the art of government being practised by the republican citizens. Aristotle thought that slaves were naturally made to work and that they did not, like citizens, possess souls.

2. The Mercantile School.—**Period: 12th to 16th Century.**—There is no great representative of this school, and the literature of the period is too scanty and ill-preserved to quote definite authors. Perhaps the opinions of this school were best expressed by **John Locke**, who borrowed most of his ideas to attack the Classic school which existed in his time (about 1660).

The two main concepts of the Mercantile school were:—(a) That profit is made by exchange. This was a step back from Aristotle. (b) That nations and individuals prosper, or otherwise, in proportion as they possess hoards of the precious metals (gold and silver). Each nation should, therefore, only sell commodities and retain the money they get in exchange.

Prevailing Economic Conditions.—Close of the long slumbering period of Feudalism. Production was for local consumption—called production for use—but there was already a growing surplus which a rising merchant class distributed to foreign countries. As this grew the merchant class became more powerful, the chief form of capital being means of transportation, *e.g.*, ships, caravans, etc., called merchants' capital. As these merchants became wealthy without taking part in production, it was natural that they should think that profits were made by exchange. It was also a consequence of the foreign trade of these merchants that the old means of exchange (payment in kind) should give way to payments in the precious metals. Payment in kind is obviously unsuited for foreign trade. For the

first time gold and silver are extensively used in exchange. What more natural than that the qualities of money, in metal, forming an enduring and universal equivalent, should appeal to them as being some inherent and mysterious virtue of the metals themselves? What more natural than their desire to hoard it, both individually and nationally? Hence we find their conceptions of Economics fit in with the prevailing economic conditions.

3. Classic School.—Period: 1650 to 1832.—Chief representatives—Sir W. Petty, Adam Smith, and D. Ricardo. **Petty**, in his book *Political Arithmetic* (1699)—significantly enough recently republished by Cambridge University Press—not only re-affirms in clearer form Aristotle's views on exchange implying equality, but declares that equal labour is the common measure of all commodities. "Equal labour," however, in his analysis, assumes the form of "special labour" devoted to the production of gold and silver. The measure of value for him is determined by "gold labour." He attacks the misconceptions of the Mercantile school on money in his remarkably pregnant and humorous style. He says: "Money is but the fat of the Body Politic, whereof too much doth often hinder its agility, as too little makes it sick . . . as fat lubricates the motion of the muscles, feeds in want of victuals, fills up the uneven cavities and beautifies the body: so doth money in the state quicken its action, feeds from abroad in time of dearth at home: evens accounts . . . and beautifies the whole, although more especially the particular persons that have it in plenty." We have not space to deal with Petty's many remarkable merits. Marx describes him as the father of modern Economics, and as being of more importance than **Adam Smith**. The latter (about 1770) declared the division of labour to be the only source of use-value. He did yeoman service in breaking up the Mercantile school. On value—to quote Marx—"To be sure Adam determines the value of a commodity by the labour

contained in it, but relegates the actual principle to pre-Adamic times." He was never clear even as to his own theory of value, sometimes in important places confusing even his pre-Adamic theory by stating that the value of labour (he meant wages), was the value of commodities, which two things clearly belong to different categories. When dealing with the developed relations of capitalism (wage-labour, rent, etc.), he forgets his own theory. His great failing, which is also true of the whole Classic school, is that he does not perceive that the "special labours" being exchanged for each other on the market are thereby equalised in abstract social labour. He is best known for his investigations into the division of labour, which, however, had been done on a grander scale by Petty. **Ricardo** (1818) while believing capitalism to be eternal, was its great scientific spokesman. He realized with great clearness the labour theory of value. Not conceiving the true position of labour-power he was unable to show why labour-power was not of the same value as the commodity produced by it. This was one of the chief reasons for the decay of the Ricardian theories. The Utopian Socialists of this period, Owen, Bray, etc., deduced that labour-power was of the same value as the commodity it produced; this contributed to its breakdown. Ricardo did great service in showing that rent was a capitalist category, but could not completely discard the illusion that rent comes from the soil, and not from society. The difference in fertility of soil is not, by him, subordinated to the action of competition. Yet his theory of rent still prevails in orthodox political economy.

Prevailing Economic Conditions.—During the period of Classic school, Petty was enabled to observe capitalist manufacture of 100 years' growth. Adam Smith lived during the transition from hand manufacture to machinofacture. Ricardo observed Capitalism as it approached its maturity. In a more detailed descrip-

tion than it is possible to give here, their theories will be found to correspond with these periods.

4. Physiocratic School.—Period same as Classic, 1650 to 1830.—This school flourished in France. Chief representatives, **Boisguillebert** and **Sismondi**, who were contemporaries of Petty and Ricardo respectively. They believed, as the name of the school implies, that the only form of wealth was agricultural products. For manufacture they had great contempt. As far as they could they held the idea that labour was the source of value, but only agricultural labour.

Prevailing Economic Conditions.—In France during this period more than half the population were peasants, and worked in small allotments on the land. Hence their theories. Marx, while giving full credit to their acuteness in criticizing capitalist conditions, points out that their object was to turn the hands of the clock of progress back. They are akin to the English who wail about capitalist desecration of natural beauties, and are labelled by Marx as the school of "*petit bourgeois Socialism*" (small capitalists' Socialism).

5. Marxian School.—Period 1859 and forward.—Chief representative, **Karl Marx**.—The labour theory of value is here for the first time proved. The contradictions of the Classic school are solved. The profit or surplus-value of capitalists is exposed. Capitalism is fitted in as a phase of industrial evolution and the law of its motion laid bare. The true position of labour-power is made clear, and the first scientific theory of wages worked out.

Prevailing Economic Conditions.—Contradictions inherent in Capitalism make themselves manifest. Commencement of huge commercial crises, Revolutionary outbreaks take place in England, France, Germany, etc. Capitalists become the dominating power in politics. Struggles of the workers against capitalists take the shape of Trade Unions. Bitter persecution of all who attack Capitalism and intense misery and ex-

ploitation of workers. Hence Marx was a revolutionary. As we shall have more to say on the Marxian school in the following chapters, we now leave it.

6. Utility School.—Period 1860 and forward.—Chief representatives are **J. S. Mill, Boehm Bawerk, and Jevons.** J. S. Mill did not strictly belong to this school, nor did he belong to the Classic school, but as all the theories of the Utility school are based on Mill we put him in here. Labor theory of value set aside, but not disputed. Economics become psychological and individual. The utility of an article to its consumer is said to be a part of the origin of its value, but it appears that the cost of production is also a factor. In short, Economics is no longer a science, but only a statement of tendencies, and there is no *one* factor that determines value but a complex of many factors: briefly, Economics is beyond their comprehension!

Prevailing Economic Conditions.—As before^m stated, Capitalism was predominant. Not only politics, but education, and every avenue by which it might be attacked, is controlled by the capitalists. The only Economics that can obtain the assent of authority to-day is *apologetic* Economics, *i. e.*, that which defends the exploitation of the workers. Hence in the decay of Capitalism, and with signs of a new system appearing, every *scientific* work on Economics is necessarily revolutionary, and therefore tabooed. Despite this the Marxian school (from an international standpoint)^l is by far the dominating school.

We have touched very briefly on the main schools of thought, being forced to leave the Romance or Italian school out, it being only a repetition of other schools. If clear ideas cannot be gained from this very condensed summary, the reference to books, dates, etc., may save the time of the inquirer. We have perhaps raised questions in the minds of readers as to the virtues of certain theories, *e. g.*, Mercantile and Classic. We shall refer to these points in future chapters.

CHAPTER IV.

THE THEORY OF MARGINAL UTILITY *v.* THE MARXIAN THEORY OF VALUE.

Considerable controversy still obtains between W.E.A. students (who are mainly followers of Marshall) and C.L.C.ers on the merits of Marshall's theory of "Marginal Utility" as against the Marxian Theory of Value, so we have preserved intact the dialogues from the *Plebs* for this chapter.

MARGINAL BILL (*who has just entered and sat down in the study of Marxian Scientist*):— I should like to have a further talk with you on Economics. Since I saw you last I have been assiduously studying Marshall's *Economics of Industry*. It is a splendid book, quite up to date, and since reading it I think I can quite easily manage to refute your Marxian theories, especially the Labour Theory of Value.

Marxian Scientist:—Being a searcher after truth I am glad to know you can do that, as I have been under the impression that Marx's theory was the only scientific one in Economic Science. But have you studied the Marxian theory?

M.B.:—Well, no, not exactly, but I have read a splendid criticism of it by Boehm-Bawerk.

M.S.:—H'm, I have also read that criticism, but I don't think it will help you much. However, tell me, what does Marshall say on the Theory of Value to excite your enthusiasm so much as to pay me a visit?

M.B.:—Well, it is difficult to give his conclusions. He points out (on page 24) that Economics is not an exact science; for it deals with the ever-changing and subtle forces of human nature. It is a study of the motives of individuals in business. Marshall has

studied these laws so well as to have arrived at the following law of the determination of prices :—" The larger the amount of a thing a person has, the less will, other things being equal, be the price he will pay for a little more of it " (p. 63).

M.S. :—I see. That means, does it not, that the utility of a commodity to the consumer determines its value ?

M.B. :—Yes, only you must remember it is the *marginal* utility. I will make it quite plain by giving you an example used by my Oxford lecturer yesterday. If a hungry man goes into a restaurant and eats a plate of beef, that has great utility to him, but his hunger being not yet satisfied, he calls for a second plate. That also possesses utility, but not so much as the first one. Say he goes on and eats four plates of beef. Now the fourth plate he was only just willing to buy. It represented the margin of the utility of the beef to him. Hence the fourth plate is called the " marginal utility " of the beef to the customer. Now do you see it ? Don't you think that's clever ? And you must admit it is the truth. Well, that disposes of the Labour Theory, and substitutes in its place the theory of Marginal Utility.

M.S. :—Hold on. Not quite so fast. What was the price of those plates of beef ? Was the fourth plate any cheaper than the first plate ?

M.B. :—Of course not. Do you think proprietors of restaurants are fools ?

M.S. :—No, I don't think they are fools ; what I think is that in this case they show their belief in the Marxian theory of value. Let us suppose your hungry consumer, finding on the bill the four plates of beef were of equal price, called for the proprietor and pointed out to him that as the utility of the beef varied, so ought the price to vary, hence the fourth plate ought to be almost given away. Say he had backed up his arguments by reading Marshall's law to him. Do you think that

would convince the proprietor? By no means. If he were a Marxian he would reply as follows:—"It is nothing to me that the commodity I supply varies in its utility to you. What concerns this firm is that we receive the full market price for our commodity. That price is not determined by the vagaries of your stomach but by the difficulty (or necessary labour required) of producing beef steaks. If you introduce some improvement in the breeding of cattle or in the methods of their slaughter which will lessen the labour necessary for their production, we shall no doubt be able to reduce the price. Meanwhile, unless you are prepared to pay the market price, you must remain hungry. Good day!" Now then, Mr. Marginal Bill, where is your Marshall now?

M.B. (scratching his head):—I must confess that's a hard knock, but (*with a sudden return to confidence*) I am not yet daunted. Look here (*turning to page 65*), you see these diagrams. Well, they mathematically prove Marshall's point. This diagram (Fig. 1) is based on this table on page 64. Here it is stated that if a man were buying tea, and the price of tea is $4/2$ per lb., he would buy 6 lb.; but if the price were reduced he would buy more. These figures show how his purchases increase as the price is lowered. When the price falls to $1/5$ the purchase increases to 13 lbs. This idea is shown in the diagram by the curve; the top *d* showing the 6 lbs., the bottom *d* the 13 lbs. Now then, this time I think you must admit that Marshall has proved his point.

M.S. (picking up the book and pointing to the sentence):—"If the price were reduced he would buy more." Eh?

M.B.:—Yes, and there he has the well-known law of supply and demand on his side. If price be lowered demand increases.

M.S. (severely):—You have put the cart before the horse. It is quite true, other things being equal (to use your expression), that a man would buy more tea

if the price were lowered, but it is *not* true that the price is reduced *because* men would buy more, since men have always, since tea was introduced into the country, shown that tendency; yet the price of tea has only been lowered when the labour necessary to produce it has been lessened. Is not that correct?

M.B. (stammering) :—Y—y—yes ! but have you read Marshall on Rent and Diminishing Returns ?

M.S. :—Yes, and his arguments are a good illustration of Diminishing Returns, for they diminish in accuracy each time. Don't quote any more Marshall to me. He is a superficial writer, and is hopelessly wrong in the first statement in his book. He says there: "Economics is, on the one side, a study of wealth, and on the other and more important side, a part of the study of man." The last sentence contains the following gem: "Public opinion based on sound economics and just morality, will, it may be hoped, become ever more and more the arbiter of the conditions of industry." These things, I will show you another time, betray his ignorance of the Science of Economics. Meanwhile, permit me to remark that you don't look quite so cheerful as when you arrived.

M.B. :—Ah, yes ! it is easy to criticise, but I could easily pick more holes in the absurd Labour Theory of Value than you have picked in Marshall's Marginal Utility.

M.S. :—Very well, we will change places. You shall become the critic. But first let me accuse the whole Utility school of being at sea in thinking that Economics is the study of the motives of individuals. As a matter of history and fact, that opinion is wrong. Society is the result, not of the changed motives of individuals from pre-social times, but of changing economic conditions. Serfdom did not replace slavery because the slave-owners decided to become serf-owners, nor did feudal lords give way to, and in many cases become, capitalists because their motives had changed. No, in

fact they struggled, and seas of blood flowed before these changes arrived. And the changes arrived because the changing economic conditions were too strong, and individual motives were forced to change with them. That in itself is enough to upset the Utility school. But I see you are impatient; you want to discuss the Labour Theory of Value. Very well. Do you know what a commodity is?

M.B. :—Yes, I have read in Marxian books that a commodity is an article of utility, produced for the purpose of exchange, and that it is the chief or typical product of Capitalism.

M.S. :—Quite correct. Now Marx, unlike Marshall, begins with the commodity, and from that builds up, step by step, all the relations of industry according to the scientific method.

M.B. :—I have heard all that. Get on!

M.S. :—All right; I'll get on quicker than you like presently. A commodity is a complex of two things—use-value (utility), and exchange-value (exchangeability). These two things are distinct from each other. Now listen. A box of matches is more useful (or possesses more utility) than a bearskin rug. Do you grant that?

M.B. :—Of course, Get on!

M.S. :—Well, a box of matches has *less* exchange value than a bearskin rug. You see, then, that the utility of these commodities does not determine their exchange value.

M.B. : (*draws a deep breath of surprise*) :—Oh!

M.S. (*unmoved*) :—Now the utility of an article, say a loaf of bread, is the same in the year 1 as it is in 1918, *i.e.*, bread of the same quality. Not so exchangeability. That changes with every change in the labour necessary to produce it.

M.B. :—You needn't pile it on. I admit my theory is wrong; get on with yours.

M.S. :—The secret of value is: What principle determines that so much of a given commodity will exchange for so much of another commodity.

M.B. :—Yes, yes; get on!

M.S. :—To this Marx says:—"What we have to do then is to find the common denominator to which they are both reducible." What have they in common? First, utility. Can it be utility? Let us see.

(*M.B. groans audibly.*)

M.S. (unmoved) :—One example. A glittering stone on the breast of a woman of fashion will exchange for the food, clothing, and shelter of a workman's family for ten or twenty years. Is that determined by the equality of their utility? Surely not. Rejecting utility, what else is there? Commodities have physical and chemical properties in common, but then these only affect their usefulness, and must therefore go with utility into the waste-paper basket. There is only one other thing left, viz., they are the product of labour. Hence labour must be the measure of the value of commodities.

M.B. (in triumph) :—Ha! Ha! I thought you were coming there. Now this secret of yours was discovered by Sir William Petty in 1699, and was further known to a whole school of economists ending with Ricardo. But where are they to-day? Ricardo's theories, except the Theory of Rent (the shining light of that school) are now decayed with old age. So much for your Labour Theory of Value.

M.S. :—What you now say is ancient history. It was Marx, and he alone, who was the cause of that. It is not your Utility school that killed Ricardo. He yet stands as high above you as does the mountain above the plain. He was at least a scientist. But to proceed. The other economists never *proved* the Labour Theory of Value. What is labour? It sounds simple. Yet Marshall doesn't know. Petty thought it was

labour devoted to the production of gold that measured value. Ricardo, that it was the labour devoted to the production of use-values. It remained for Marx to point out the two-fold character of labour and it is this that makes his theory different from all others.

M.B. :—I don't understand. Two-fold character of labour! What bosh! Why, that's metaphysics!

M.S. :—Listen, and hold your thinking cap on tight. I am going to put a strain on your marginal intellectual capacity. The labour necessary to the production of a watch is of a special kind. It demands different skill, different materials to handle, and a different workshop to work in, than does the labour necessary to produce a coat. Therefore we call that concrete, useful labour, because it is devoted to the production of a definite use-value. This watch and this coat are exchanged on the market. What does this mean? It means that the labours, though different, are equalised. They are reduced to one and the same kind of labour, abstract social labour. Do you see, dunderhead?

M.B. :—Wait a bit. I am grasping it.

M.S. :—Let me help you. The watch and coat, we assume, were exchanged by means of a sovereign. The sovereign equalises both. Look up your logic. Two things which are equal to a third thing are equal to each other. Now labour in this sense is quite indifferent as to whether it is embodied in silver or lead, in Bibles or brandy, in books on Utility or Marxian Economics. Its specialized character is lost sight of; and it now appears as so many units of social labour. Stay, here is an old shoemaker who produces shoes in almost the same way as they did in the Middle Ages. Comparatively, it involves tremendous labour. Yet when the shoes are placed on the market they fetch only the low price of the boots produced in the most highly-equipped factories of Leicester. That means that while his individual concrete labour in the production of a definite use-value is determined by his own individual way of

working, yet his labour, which gave his shoes exchange-value, is determined not by him, but by the organization of society, by the labour socially necessary to produce boots.

M.B. :—Now hold on; I've had enough for one sitting. What you say sounds well in theory. But you've yet to show how it works in practice. I'll go now, but before next time I'll read and think over it and so be better prepared to meet you.

M.S. :—That's right. I'm pleased to hear you are going to turn over a new leaf and begin thinking. When you've done some I'll be glad to hear from you, for I've not done with you yet. Good-night!

* * * * *

M.B. :—I have been thinking over our discussion, and am now prepared with a list of what I consider fatal objections to the Marxian Theory of Value.

M.S. :—Very well. Fire away.

M.B. :—I will commence where we left off and work back. Now your point regarding the two-fold character of labour I must still regard as metaphysical, and, in fact, as having no existence outside your imagination.

M.S. :—Then my explanations were quite lost on you. Well, knowing your partiality for diagrams and arithmetic I will attempt to demonstrate this point to you in that way. Now can you explain why the "labour-saving" machinery that has been introduced in production for over 100 years has had as one result the enormous increase in use-values (wealth), while on the contrary the exchange values of these same commodities have remained practically the same? I will illustrate: In 1718 a doll takes 12 hours to produce, and its value, expressed (for the sake of simplicity) in terms of price, is 1/-. In 1918, by means of "labour-saving" machinery, 12 dolls are produced in 12 hours. The laws of competition will force the price of those dolls down so that the whole 12 only fetches 1/-, or the same

same exchange-value as the one doll produced in 1718. We have therefore had an immense increase in use-values (dolls) while the exchange-value of this increase remains the same. Now why?

M.B. :—Why? Because their utility has fallen.

M.S. :—Why has their utility fallen?

M.B. (*reluctantly*) :—Because there is less labour needed to produce each one.

M.S. :—Now then, what of your charges of metaphysics and imagination? You admit that the same labour has a two-fold character—(1) the attribute of increasing use-values; and (2) the attribute of lessening exchange-value. Hence 12 hours of social labour in 1718 will produce the same value as 12 hours in 1918, while on the other hand the amount of wealth (use-values) will have immensely increased. This is therefore a practical demonstration of the soundness of the Marxian theory. Next question, please!

M.B. :—You got over that nicely, but I think I have some more formidable objections for you. And your last answer gives me my cue. There you disregard the part played by machinery, and in your whole theory you disregard the part played by nature in the production of wealth. Now, surely, not to take into account such obvious forces as machinery and nature constitute a very grave objection indeed.

M.S. :—I quite agree that the economist who failed to take into account the part played by nature and machinery in the production of wealth would indeed have made an ass of himself.

M.B. :—I am very pleased. To admit so much frankly, as you have done even when you were getting the best of the argument, is indeed very creditable to you.

M.S. (*smiling*) :—Not quite so fast. That machinery and nature does play an important part in the production of wealth no one is more ready to admit than

Marx. But then Marx never said that labour was the cause of *wealth*. In fact, he expressly denies any such thing, and often quotes Petty that "the earth is the mother and labour is the father of wealth." But quite differently does he treat *value*. Neither nature nor machinery can in any way create value. They assist enormously in the creation of *use-values*, but, as we saw in our illustration, they do not create *exchange-value*, which is a social relation of production. Assume that a ton of coal finds its value measured by a silver watch; that the discovery of a rich vein of coal (useful in the production of both commodities) and the application of machinery causes 10 tons of coal to be produced in the time that 1 used to be, and 10 watches in the time 1 watch used to be. We shall have ten times more *wealth* due to nature and machinery, but we shall still have 10 tons of coal=10 watches, or 1 ton of coal=1 watch, and *value* will not have increased one iota.

M.B. :—H'm! Yes! I never thought of that. But there is still another way to put my difficulty which your answer doesn't touch. Nature produces some commodities, sold on the market, in which there is no labour embodied whatever. I refer to commodities like virgin soil. That, I think, completely quashes the Marxian theory. You'll find that a tough nut to crack.

M.S. (*serenely*) :—You are wrong. Apparently the strongest, that objection is really the weakest you have advanced. Boudin, a brilliant Marxian, has answered this point so well that I will simply quote him. First, let me point out that virgin soil is not a commodity; is not produced by labour, and consequently does not possess value. Large tracts can be obtained on many parts of this planet without paying a farthing for it. Boudin says: "The query . . . 'Why is virgin soil bought and sold?' is to be answered: 'The fact is that *virgin soil* is not bought and sold. It is only after the soil has been husbanded and raped, and has given birth to the bastard *rent* that it becomes the subject of

purchase and sale, and not before." I would also refer you to *Capital*, Vol. I. (see pp. 7, 8) where Marx deals in detail with this point. Next, please?

M.B. :—I now come to the objection that makes all Marxians shudder, namely, that pictures by the great masters are sold at prices hopelessly disproportioned to the amount of labour they contain. How can you surmount that difficulty?

M.S. :—If Marxians shudder at that objection then they shudder at the appalling ignorance of their critics. Only monstrous ignorance and absolute lack of appreciation of art would attempt to degrade the picture of a master to a commodity. In addition, the idea betrays a misconception of elementary economics. A commodity is an article of utility produced for the *purpose* of exchange. I do not think you can fit the products of genius into that frame. The work of art not being a commodity, your objection falls to the ground. But even so, I suspect that you cannot prove your statement that pictures of the old masters are sold at prices out of all proportion to the labour necessary to produce them. We have proved that the labour which creates value is social labour. Well, then, how much labour is necessary before we can have the work of a genius? How many schools of thought must come and go? How many new ideas have to be slowly accumulated? Tell us all this and then we can discuss your statement. When, however, capitalist production seizes on the works of genius, viz., when copies are reproduced by machinery, then they become commodities, and, of course, obey the law of value. You perhaps begin to see the loss of the Utility school in not submitting commodities to an analysis?

M.B. :—I thought I had you that time, but I will continue my objections. My last objection is that I find, on considering our last talk, that you tricked me by using the word utility in two senses. You referred to utility in the case of the plates of beef as utility to

the consumer, but when you were summarizing the Marxian analysis you spoke of utility in a social sense.

M.S. :—I did not trick you. I simply attacked you with your own weapons. I am glad, however, that you refer to it, as this point illustrates the difference between the Marxian and Utility schools of thought. You people think you can arrive at social laws by studying individual motives, hence utility to you is the utility to a consumer. What appears to you to be good Economics Marxians label bad psychology. Economics is not a study of motives, it is a study of social forces to which the individual is subordinate. To use the utility point of view is as absurd in Economic science as it would be in physics. The reason why men can walk on solid earth yet cannot on water is explainable by the laws of physics. What would you think of a man who tried to explain this by individual motivation? You would think he wanted his head bathed and well bandaged. Well, that's what we think of you. Before you go, a word of advice. If ever you want to criticize Marx again I would recommend you first to read and study him. Good-night !

CHAPTER V.

VALUE, MONEY, PRICE.

WHATEVER may be the future of Economic Science the Marxian analysis of Value will always command admiration as one of the most brilliant and masterly efforts of the human mind. To answer the question:—"What is money?" the economists compiled huge tomes containing the most dreary iteration of the various commodities that had been money, from the shells of the South Sea Islanders to the Virginia tobacco money of the 17th century. As a collection of curios in the history of money they were tolerable, but as answers to the question, What *is* money, they were hopelessly irrelevant. As Marx pointed out: "The difficulty lies, not in comprehending that money is a commodity, but in discovering how, why, and by what means a commodity becomes money" (*Capital*, Vol. I., p. 64). The relation between money and value is so intimate that to find out what money is it is first necessary to analyse value. To do this it is quite unnecessary to go to the South Sea Islands; the material for analysis lies here underneath our very noses. Value is not material; it has a purely social reality, just as is the case with a foot or a lb. These are not *things*, they are *relations between persons* expressed as a relation between things, and it would avail us nothing to know the various materials in which a foot had found expression if we want to know, What is a foot? For simplicity let the reader carry in his mind the analogy of a foot-rule to a commodity containing the value form. Commodities, like foot-rules, have two forms, a physical or natural form, and a value form.

Value—The stages by which value obtains independent expression are four: the elementary, the ex-

panded, the general, and the money form. Value is manifested in the exchange of commodities, therefore, the simplest exchange contains the puzzle. Let us then take the simplest form of exchange, viz., the exchange of two commodities. *Elementary Form*—1 lb. sugar is equal to 1 looking-glass. If the reader will pause to think here, he will find that each of these commodities plays a different part in the above equation; the sugar plays an active, while the glass plays a passive part. The value of the sugar is to be expressed; the glass simply serves as the material in which the sugar-value is to be expressed. We are not told what is the value of the glass. To know that we should have completely to change the terms of equation. Marx calls the sugar the relative form of value because its value is to be related. He calls the glass the equivalent form of value because its function is to equalise or measure the sugar. To illustrate: If you place 1 lb. sugar opposite to a looking-glass on the table, the sugar peeps into the looking-glass and sees—its own self. Let us assist the undeveloped faculties of the sugar and imagine that it sees, not itself, but its value; we shall then have a picture of what takes place. Let us now drop the illustration. The glass remains unmeasured. We cannot say 1 looking-glass=1 looking-glass. The function of the glass, then, is to be the *measure of value*. This stage is called the *elementary* or accidental form of value. We now proceed to the second stage, the *expanded* form.

Our little community consists of only two commodities. We will add a few more, say—a bat, a walking-stick and a pair of gloves. As each of these commodities enter our community they have first to act as equivalent to the sugar, so that we have now one relative, and a long string of equivalents. This form is, however, very defective and cumbrous, and in the course of time we reverse the process. We say if 1 lb. sugar has such a long string of equivalents, and we are quite sure of their relations, surely it will be more convenient if we make

the relative form the equivalent form to all the others. So we reverse the expanded form and instead of saying 1 lb. sugar = to 1 glass, 1 lb. sugar is = to 1 bat, etc., we now say :—

General Form.—1 bat, 1 stick, 1 pair gloves = 1 lb. sugar.

This is the third form, the general or money form. The sugar is now the universal equivalent. Sometimes as we progress it is more convenient to displace sugar from being the universal equivalent and substitute another commodity, until one day a new commodity in the shape of silver enters our community. We soon find out its superiority to act as equivalent. We might now say :—

Money Form.—1 bat, 1 stick, 1 pair gloves, 1 lb. sugar = $\frac{1}{2}$ oz. silver or 1/-.

The superiority of silver as a universal equivalent arose from the fact that it had great value in small bulk, that it was imperishable, and easily capable of divisibility. It would almost seem as though the precious metals were placed in the earth by nature to act as money ! The same reasons that led to the adoption of silver as money applied still more in the case of gold, especially as the mass of exchangeable commodities increased with the growth of Society, as gold contains still more value in small bulk and yet is not too rare to obtain a sufficiency of supplies.

Money.—We are now in a much better position to answer the question—What is money ? Money is the material expression of the value form of commodities, just as a foot-rule is a material expression of the lineal form of natural objects: When studying Value in Chap. II. we saw that value was derived from social labour. Now social labour is an abstraction, and can only be perceived by the mind. In the money form that abstraction appears to take on a tangible, visible shape. The golden coin now acting as money has had

first to be a commodity, the embodiment of social labour. It is now promoted to the market to act as the universal equivalent for all other commodities. Its chief function there is to measure the value of all other commodities. By this means the labour embodied in commodities is reduced to one and the same kind of labour—Social labour, and the units of its measurement (or equality with other commodities) are expressed in terms of £ s. d. The “dry-bones of the abstraction social labour” take on flesh and become visible as—Money.

In this very brief summary of the Marxian analysis it would appear that the analysis is wholly logical, but if it be examined closely it will also be seen to have not only logical but also historical sequence. If we substitute for looking-glasses and sugar, spears, skins, bows, sheep, etc., we might take a bird's-eye view of the actual historical development of the form of value into money. In early societies when use-values predominate, or, rather, production for use is dominant, the most useful commodity acts as money. Thus where skins are money, skins would be the chief article in use. It would be used for tent-building, clothes-making, shoes, blankets and bedding, strings for bows, etc. Being so useful it would readily exchange for other commodities from consideration of its usefulness alone. But where exchange-value gains prominence the necessity for usefulness in the commodity gradually becomes less. Where gold is money it is used mainly for exchange, and is not in great demand as a use-value. The variety of articles used as money between skins and gold, and the gradual increase of exchangeable goods as society developed, would easily show periods analagous to the four forms of value given in the analysis.

The Functions of Money.—Since the transformation of the value-form into money, the money-commodity has developed a great many functions, but the two vital ones, upon which all others are based, are:—The measure of value, and the medium of circulation. The

definition of money given by Marx is—"The commodity that functions as a measure of value and, either in its own person or by a representative, as the medium of circulation, is money." We shall deal briefly with the functions of money in the order of their development, but we must warn the student carefully to differentiate between the different functions because it is quite true (as Marx quotes Gladstone from a parliamentary debate) that "not even love has made so many fools of men as the pondering over the nature of money." The first and most important function of money is the **measure of value.**

Before a commodity enters into the sphere of circulation, preceding its exchange, its value has to be measured. As Marx graphically describes it: "The liveliest streets of London are crowded with stores whose show windows are filled with the riches of the world, Indian shawls, American revolvers, Chinese porcelain, Parisian co:sets, Russian furs, and tropical spices, but all of these things of joy bear fatal white labels marked with Arabian figures with the laconic characters £ s. d. Such is the picture of the commodity appearing in circulation." Or, again: "Although invisible, the value of iron, linen and corn has actual existence in these very articles: it is ideally made perceptible by their equality with gold, a relation that, so to say, exists only in their own heads. Their owner must, therefore, lend them his tongue, or hang a tickèt on them, before their prices can be communicated to the outside world."

This fixing of the price in the imagination, without the presence of actual money, is the measuring of value. In spite, however, of the abstract appearance of the process, it is based on the sternest of realities—hard cash. The thoughts in the mind of the price-fixer arise from previous experience of exchange. This previous experience is the working of the law of value which determines the quantity of socially necessary labour embodied in the commodities that have been exchanged. That is, the measuring of value makes the labour

embodied in all commodities equal with the labour embodied in the money commodity—gold. It is not the money that makes the commodities equal, though that is the appearance, but the social labour in the commodities that is equalised with the social labour in the gold by means of the imagination. It does not follow that the price so fixed will actually be received: if it were so, value and price would be the same thing. The translation of value into price will be more fully explained later on; for the present the attention should be fixed upon the equalisation of commodities with gold. Gold, like all other commodities, is a product of social labour, and measuring the value is equalising or measuring the value (labour) in, say, a sovereign and a chair. It is very important thoroughly to grasp this function of money, as all the advocates of the abolition of gold and the establishment of paper money go wrong because they do not realize the function of money as a measure of value, and confuse it with the function of a medium of circulation—a very different function, as we are now about to show.

Medium of Circulation.—Because money is a measure of value it can become a medium of circulation. That is, money being an equivalent in value with commodities will be accepted in exchange with them. Money being the universal equivalent, will be universally accepted in exchange for all other commodities. It is thus the medium or means by which commodities circulate from hand to hand or the medium of circulation.

When in earlier times goods were exchanged for goods, or exchange was by barter, there was, properly speaking, no circulation. In direct barter, if we represent commodities by the letter C we have the process expressed in C—C, or, say, a loaf of bread for $\frac{1}{2}$ lb. cheese, and the exchange between producer and consumer is immediate. Whereas in circulation the process is interrupted by the introduction of money, which we designate by the letter M. The process now is not C—C, but C—M—C or loaf of bread for 1/- and 1/- for $\frac{1}{2}$ lb. of cheese. But between

the exchange of the bread and cheese there is a pause, caused by the 1/-. Now this pause may be a very slight one, or one that may convulse society, and is therefore of very great importance, as distinct from barter, because of its possibilities. That pause is normally sufficiently great to permit a host of parasitic exploiters in the shape of middlemen, etc., to intervene, and so at times to accelerate the separation between C—M and M—C, as to cause or extend the period of our commercial and money crises, which periodically occur in capitalism.

On the other hand, the introduction of money immensely aids the productive forces of society, and large scale production would have been impossible with barter. This appears contradictory, but capitalism is full of such contradictions, and it is the study of these contradictions that will show how capitalism will inevitably collapse.

The process of circulation appears as follows:—A commodity, C, or 1 loaf of bread, has its value measured, or priced, and then enters circulation. It is a use-value, but has aspirations to become an exchange value. On the market it meets with gold, or 1/-, which has aspirations to function as Money M. C, seeing that M is present in the right shape and size, gives M the "glad-eye" and an exchange is effected. C has now given up its body (use-value), which disappears from circulation for consumption, but leaves behind its soul in the shape of M. The soul of C or M goes on in circulation, and presently meets with another C— $\frac{1}{2}$ lb. cheese—when the process is repeated. What we have so far is C—M—C, or an exchange of a loaf of bread for $\frac{1}{2}$ lb. cheese by means of 1/-. But the bread and cheese have taken what Marx calls the *Salto Mortale* (the leap of death), and have been consumed, while the 1/- remains in circulation to carry on the interminable process. This is a brief description of what we must call simple circulation to distinguish it from the modern full-blown capitalist circulation. In simple circulation, as above, the bread is sold in order to buy cheese. Therefore the

order is a sale in order to make a purchase, or C—M—C. But that was in the very beginning of circulation. Since then Gold or Money has shown its mastery of the process of circulation and reversed the order. To-day we have no sales in order to purchase, or C—M—C. What we have now is a purchase in order to make a sale or M—C—M—and the last M with an increment. How this is effected will be explained in the section dealing with surplus-value. But these differences need not concern us while we are merely dealing with the technical process of circulation.

The function of money as a medium of circulation would differ then from its function as a measure of value, so far as we have seen, in that gold is only ideal money in the measure of value, whereas it is present in its bodily form as a medium of circulation. So contradictory, however, is capitalism, that just as soon as we have written the above, we must further explain that this difference, *i. e.*, the concrete presence of the gold money, can much more easily be rendered imaginary than it appears to be in the measure of value. Where money appears to be merely imaginary, there is the sternest call for hard cash: where money appears to be essential, there it can readily (for a time at least) be replaced by imagination and faith, as we shall see. ■

Token Money.—What permits gold to become money and, therefore, a universal equivalent, is the never-to-be-forgotten fact that it is the product of social labour. From this fact arise all its numerous functions. It functions as a medium of circulation because it is a measure of value. But when money is functioning as a medium of circulation, is it not also functioning as a measure of value? That is the supposition, but, as a matter of fact, a piece of paper that takes hardly any labour to produce can function as a medium of circulation; but it would be absurd to say that paper could function as a measure of value, *i. e.*, of social labour. How, then, can paper, and inferior metals such as silver and copper (which are not money) function as mediums

of circulation? Gold is a very precious metal, but in spite of its hardness, when mixed with alloy, is subject to certain wear and tear in the process of circulation. In the form of bullion gold can circulate all over the world, but in any given country, it assumes the form of coin, thus acquiring "a local and political character." A sovereign issued fresh from the English Mint contains 123·27447 grains of standard gold (*i.e.*, 11 parts of gold to 1 of copper); but in the course of its first day's work it may have to affect 20 or 100 exchanges of hands, purses, etc. In the course of a few years of this it may lose a grain or so, and is no longer what it represents itself to be. In addition, certain sharp-witted individuals help the process by clipping, sweating, etc. Marx, says Jacob, estimated that between 1809 and 1829 out of 380 millions 19 millions disappeared in these ways. What will be the result? The light weight sovereigns, upon being reconverted or melted into bullion, would represent a less quantity of gold than the face-value of the coins, or, as they say, the market, or bullion price of gold would be higher than the mint price. When this would extend over the national circulation the bullion being reconverted into coin would be of a lesser gold weight than the reckoning names of the coins, and prices would have risen. Legislation steps in and calls for the withdrawal of all sovereigns of less weight than 122·527 grains. This cannot always be done, but even so it is recognized that as a medium of circulation gold can circulate even as a symbol of itself. In consequence of this, and especially in retail transactions and payment of wages, silver and copper is substituted for gold. Now 20 shillings in silver, or 240 coppers, while nominally equal to a sovereign, are hardly equal to half that amount. But they circulate. Not only so, but Governments, when pressed for money, print pieces of paper purporting to be exchangeable for gold, and they circulate largely through necessity and partly through faith that the paper can be redeemed if required in gold. Thus, while only gold can function as a measure of value

inferior metals and paper can function as a medium of circulation.

These tokens, however, which are only representatives of money can have only a very limited circulation, the conditions of which will be more fully explained in the chapter on "Currency."

CHAPTER VI.

CURRENCY.

HOW much money is required in a given community to circulate commodities? Prevalent notions still solemnly taught at our Universities are to the effect that the quantity of money in circulation determines the prices of commodities. This is known as the "Quantity Theory" of money. Our first question disposes of this theory, for the purpose of money in circulation is for the exchange of commodities. If more money is present than is required, it will be withdrawn to fulfil more useful functions in the banks.

If, in a given town, the prices of the commodities to circulate on a given day amount to £10,000, and if each sovereign changes hands each day ten times, then the amount of money that can function will be 1,000 sovereigns. If in the development of the machinery of exchange the sovereign changes hands twenty times a day, then the only amount of money that can function as currency is 500 sovereigns. The law, as stated by Marx, is "the quantity of money functioning as the circulating medium is equal to the sum of the prices of the commodities divided by the number of moves made by coins of the same denomination." Suppose next day the prices of commodities fall to one half, then only half the amount of coins, 250, will be required. Suppose, on the following day, through changes in gold production, the value of the coins fall (because less labour is required to produce them) and they fall to one half in value, or one sovereign will only buy what yesterday half a sovereign would buy, then in that case the numbers of coins required will be doubled, or 500

will be wanted. If we take the opposite effects of all these suppositions and say *vice versa*, then we shall have all the facts necessary for finding out how much money is required for the simple circulation of commodities. But as we have long developed beyond the simple circulation of commodities (C—M—C) we must now take other factors into our calculations.

The Money Nuisance.—Is money absolutely indispensable? With a system of private ownership of commodities money is indispensable, and if commodity production obtains in Mars it is equally certain that money also obtains there. Why? Because the owner of coal or candles will not dispose of his commodities unless he has some security for getting equal value in exchange for them, and ultimately there is no actual security unless it be a commodity which is a universal equivalent to all other commodities. In times of financial panic this fact is patent. As Marx puts it: "The *summum bonum* for which everybody is crying at such times as for the only form of wealth, is cash, hard cash; and by the side of it all other commodities, just because they are use-values, appear as useless as so many trifles and toys; or, as our Dr. Martin Luther says, as mere objects of ornament and gluttony. This sudden reversion from a system of credit to a system of hard cash heaps theoretical fright on top of the practical panic; and the dealers by whose agency circulation is affected shudder before the impenetrable mystery in which their own economical relations are involved."

On the other hand, if private property were abolished money would be a nuisance. A large industry employing an army of workers whose functions were of no conceivable use, would be a heavy drag on production. Herman Cahn, in *Capital To-day* (p. 65), says of America: "The total amount of metallic money in this country in 1904 was 1,994 million dollars. The quantity of human labour expended in the production of this money, not for any use, but merely that we may

be able to distribute our products among ourselves, would have duplicated three-fourths of all the manufacturing buildings which existed in this country at the same time, valued at 2,610 millions." The same statement is approximately true of all civilized countries.

Notwithstanding this, there is far too little money in the world for the legitimate purposes of the development of capitalist industry, and the money we have is economised to the utmost possible extent by the use of tokens, paper money, and a high development of the system of balancing accounts by means of the banks, in which the bulk of the golden metal is deposited. Its existence in the banks forms the starting point of the system of credit. Without credit the immense productive forces of modern industry could not be developed. Credit is another name for faith. When a railway is built money is advanced which cannot be repaid until the railway has been completed and been in use for many years. It is no longer C—M—C; the starting point is now M, money for commodities, and then money or M—C—M. But the interval between M and M may be very prolonged. It may be so unduly prolonged as to produce a money crisis, and we have here the root of those convulsions which aim at the very foundations of modern capitalism. We are to-day nearer such a convulsion as may overthrow capitalism than we have ever been. The war has accelerated tremendously the productive forces of industry on a basis of credit, while at the same time it has intensified the already acute shortage of the gold reserves. In all countries the total gold reserves do not represent a 20th of the liabilities, and if a financial panic occurred in any one country it is difficult to see how it could be prevented from becoming world-wide. This subject is elaborately dealt with by Herman Cahn in his two books, *Capital To-day* and *The Collapse of Capitalism*, which every student would do well to study.

The interval between Money from its starting point to its return being prolonged by credit, gives rise to a

creditor and debtor class. So that in considering the quantity of money necessary to circulate commodities at any given time we now have to take into account the debts to be paid at that time as well as the new debts to be incurred. It is, of course, impossible for anyone to know this with any accuracy, and so the quantity of money necessary cannot be predetermined. But the foregoing will show the absurdity of the claim that prices are determined by the quantity of money in circulation, when the truth is the exact opposite, viz., that the quantity of money in circulation is determined by the prices plus the other factors we have named.

Paradox of Paper Money.—The foregoing formula, however, only applies to a gold circulation or a circulation determined by gold. If gold, as at present, is cleared from circulation and paper takes its place to an excessive extent, then this curious change takes place—the prices of commodities are now determined by the quantity of paper in circulation. We have pointed out that only a limited quantity of gold money can circulate for the distribution of commodities. And if tokens and paper are only partly introduced, so that the sum of money required is not exceeded, no change in this rule takes place. Even if the whole of the currency is paper and their issue does not exceed the sum of money required, then no change takes place. But from the moment this limit is exceeded (and that is always the case with a paper currency) then every note above the limit depreciates the whole of the notes; so that if twice the amount of notes required were issued each note would only represent half its value and twice as much paper would be used as if a gold currency obtained.

Only a given quantity of gold can circulate to distribute commodities, but an unlimited quantity of paper money can circulate. Consequently, when the quantity of money required in circulation is exceeded by the introduction of paper money there is no change in values. If the quantity of money required in circulation is

one million sovereigns, and two million pound notes are introduced, then a commodity valued at £1 will require two pound notes in exchange for it: if another million notes are introduced then the £1 commodity requires three pound notes in exchange, and so on. There has been here no change in value: no change in the social labour required to produce commodities: what has occurred is that the laws of currency have been violated and that prices have been forced to adapt themselves to value. In a paper currency of this description (such as we have all over the world at present) all the laws relating to the circulation of money appear to be quite reversed. Thus, "while gold circulates because it has value, paper has value because it circulates," and while in gold circulation the quantity of money required is determined by the sum of the prices of commodities, in paper circulation of the kind we are describing, it is quite the contrary and the prices of commodities appear to be determined by the quantity of excessive notes in circulation. Governments may easily inflate the currency by printing pieces of paper, but they cannot alter the laws of value, and once the paper is introduced into circulation, the limit of the power of Governments is reached, and the circulation process takes its revenge. If the social labour required to produce a £1 treasury note equalled the social labour required to produce a golden sovereign, then the note would have equal value with the sovereign, but in that case we should never have the spectacle of the inflation of currency by paper. The basis of commodity circulation is gold. The demands of gold under private ownership are inexorable. Capitalism is trying to evade this demand by a paper currency and a credit system whose basis is ever increasingly paper. While it is producing paper, it is producing bankruptcy; the approaching doom of commodity circulation; the overthrow of private ownership; and the end of the reign of gold.

CHAPTER VII.

VALUE AND PRICE.

TREMENDOUS confusion prevails regarding the difference between the terms Value and Price. It is not very easy clearly to explain the difference, and no pretence is made that in this chapter this will be exhaustively done. Marx has been subject to an immense amount of undeserved criticism for his alleged failure to explain this difference. It is said that his third volume completely refutes his first, when all that has happened is that his critics have failed to understand his method.

To the orthodox economist the world is static ; the system of production which we call capitalism is eternal, it always obtained, it always will obtain ; his system of economics is a study of an industrial system in repose ; his economic categories are at all times the same and have the same results. Therefore if Marx, in his study of the evolution of capitalism, at one time speaks of value and price almost as if they were synonymous terms, and elsewhere shows that the two terms are necessarily very different, he is immediately said to have contradicted himself. It has never occurred to the critics that a scientific analysis of an evolving system of production is bound to portray the contradictions of that evolution ; that categories and terms which have a certain meaning and application at an early and simple stage of production lose or change that application in the more highly developed and complex stages of production ; and that, consequently, the scientist who rigidly portrays or exposes these contradictions, is not himself contradictory, but scientific. Of course, Marx was always careful to point out in

Volume I. that the assumption that price equalled value, while necessary for that part of the analysis, would have to be very much qualified in Volume III. when the analysis would be complete.

The general conception of the student of elementary economics regarding value and price is that value—the quantity of social labour embodied in a commodity—receives its price on the market, and that while supply and demand may deflect the price above or below its value, those variations will be the only variations between value and price. That conception is a very necessary one for the first stage in the analysis, but when this has been thoroughly grasped, it is then possible to proceed, to conceive the qualifications this elementary notion may need. Now if industry was not in a constant state of evolution this elementary conception would suffice for all requirements; but then we should not have capitalism, and a science of economics would be superfluous. Industry in pre-capitalist days was, in comparison with our days, static. There was the master artisan (who himself worked), a journeyman, and perhaps two apprentices. Any increase in the *personnel* was strictly forbidden. Every artisan in a given craft or trade used exactly the same tools, in the same type of workshop. To become rich, as we understand the term, under this system, was impossible. There was no competition; the output was fairly well known, and consequently supply and demand were practically in equilibrium. Here, then, value and price would be synonymous terms. The commodities would contain the social labour required and would directly be exchanged for commodities containing an equivalent amount of social labour, and the price would not vary from value. But when this system was overthrown, and instead of journeymen (who expected to become masters themselves) wage-labourers without limitation of numbers could be employed, a change comes over this static scene. One master, by the development of workshop and increase in tools, is enabled to employ a larger

number of wage-labourers than his neighbours. The profit he makes on this wage labour enables him to purchase a more powerful instrument of production, which may have been recently invented. By means of this new means of production he makes still more profit, because not only has he more wage-labour to exploit, but, and this is of the utmost importance for the understanding of our subject, his improved process of production enables him (*i.e.*, his labourers) to produce his commodity with less labour than his neighbours. That is, let us assume, by his new process of production, twice as many commodities could be produced in the same time, and with the same number of wage-labourers as his neighbours. What is the result? The price of the commodities—let us call them boots—is determined by the value or the social labour required to produce them. But our manufacturer has been able to produce his boots at less than the social labour required to produce boots at that time. Does he sell his boots cheaper? Not at first, perhaps, but eventually he is compelled to, as he has a stock of boots in hand which there is no incentive for people to buy. So he lowers his price a little. Not very much but sufficient to gradually encroach on the market of his neighbours. His neighbours begin to get alarmed, and they make desperate efforts to acquire the same machinery of production. Perhaps two or more combine to purchase the new machinery. The price of boots now goes a little lower, until all the makers of boots (except those who become bankrupt and have to seek employment as wage-labourers) introduce the new process, when the price falls, by the law of value, to the new standard of socially necessary labour, that is, in our example, to one half the former price. But immediately this point is reached—perhaps even before—a newer and still more powerful machine is in existence and the same process is gone through again and again *ad infinitum*. We have here the mechanism of those huge productive forces which have transformed the world into a gigantic factory.

At any given moment industry in general, or any particular branch of industry we care to examine, is in this process of evolving from a lower to a higher stage of production. What does this mean? It means that in factory A, the least productive machinery is in operation; in factory B the average productive machinery is in use; while in factory C the very latest and most productive machinery has just been introduced. That means that in factory A the greatest amount of human labour in the industry is used per boot produced; in factory B less labour per boot is used than with A, but still more than is being used by factory C. Then in that case, in factory A there is per boot greater value, or social labour, than in factory B, and still more than in factory C. How does this affect the connection between value and price? Marx says that value is determined by social labour, and "the labour time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time." Price is born from value, and the price paid for boots in our example would appear to be the price determined by the value of boots produced in factory B, which represents the average of the industry. Then if the price of all boots of a given quality is determined by the price of boots from factory B, we have this seeming contradiction, that the boots from factory A, containing the greatest value, obtain only the price of the lesser value contained in boots of factory B: while the boots from factory C, containing the least value, obtain the same price as the greatest value contained in boots of factory A. But if we look at the matter from the point of view of the whole industry then the total value still determines the price, because the excessive value given out by A is cancelled by the little value given out by C. The variations cancel each other. There is here no contradiction in the Marxian system. We see the law of value predominant, asserting itself in the midst of the contradictions and oscillations of Capitalism

like "an over-riding law of nature." We saw from our example that while price was not, for any given commodity, an adequate exponent of value, yet the variation of price from value could only be explained by the law of value, and those very variations were caused by the law of value operating upon the constantly evolving system of capitalism. The example given was of one industry, but the same thing would obtain if we took two or three dozen different industries at the same time, only we should have to explain it in a somewhat different way.

To summarise:—Value is caused by, or rather is another name for, the social labour embodied in commodities. Social labour or value is not a thing; it is an abstraction. This abstraction is made manifest when a commodity comes into the market and is exchanged for a certain sum of money. The money represents social labour as well as the commodity it is exchanged for. We see the money and we give it the names pounds, shillings and pence. The pounds, shillings and pence we give for a commodity are its price, or the money name for its value. It is, so to speak, putting flesh on to the abstraction, or rendering articulate the yearnings of the commodity for expression. But, as often happens to superior mortals, the language is not a correct interpretation of these yearnings, because between our ideas and their expression are oftentimes many obstructions. Value is and will remain the cause of price, supply and demand and the complex development of capitalism notwithstanding.

CHAPTER VIII.

CAPITAL, LABOUR-POWER, SURPLUS-VALUE.

(The two following dialogues have been preserved in their original form for this chapter.)

MARGINAL BILL :—You Marxians appear to be a very superior sort of people. The other day I heard one of you attempting to ridicule the good old definition of capital, viz., "Capital is that part of wealth devoted to the production of more wealth," and wanting to add on the words "with a view to profit." What's the difference anyhow? You surely agree that such an addition is unnecessary?

Marxian Scientist :—I certainly do not agree. Since Darwin and Marx wrote, what you call the good old definition is absurd. No *economist* who understood what evolution meant would accept a general definition for a particular period. As Untermann has pointed out, your good "old definition" would make a monkey a capitalist.

M.B. :—I didn't come here to be insulted. I—

M.S. :—Take a breath while I explain. Monkeys, so I am informed, use a stone to crack nuts. Well, that stone is "wealth devoted to the production of more wealth." According to you that stone is capital and the owner of capital is a capitalist. Hence a monkey is a capitalist. There is a legend that the only reason why a monkey will not talk is that he is afraid he will be put to work. In this—his anxiety not to work—you will agree that he resembles the modern capitalist. Now don't look so foolish. Your mistake is due to your economics being pre-evolutionary. If it is a consolation to you, the same absurdities are common to those numerous philosophical and ethical systems that talk

of "pure reason," "eternal justice," and such antique relics.

M.B. :—Alright. If I have made a mistake show me *why* and don't adopt that superior attitude.

M.S. :—Your complaint is also ancient and utopian. Listen. "Wealth devoted to the production of more wealth" (or means of production) has existed throughout all forms of society—savagery, barbarism, communism, slavery, serfdom, and wagedom; but the specific character of that wealth has constantly changed. Let us examine two periods. Broadly speaking, modern capitalism, *i.e.*, industrial capital, originated in the 16th century. Prior to this the typical mode of production was fundamentally different from ours. Production existed mainly for local consumption (called production for use). To-day production exists mainly for exchange. Then, production was on a small scale, the facilities of communication and transport were undeveloped, and the producer himself brought his goods, to what, for convenience, we may call a market, to get in return the things necessary to life. *He sold in order to buy*; goods were exchanged for goods, and money was practically unknown. The demand was known, and over-production could not exist. But now, under capitalism, production is on a large scale, a world-market obtains; instead of goods for goods, it is now money for money. The "producer" does not produce. He (capitalist) invests his money, which is converted into capital for the purpose, not of obtaining necessaries, but of obtaining surplus-value. *He buys in order to sell*. All transactions are conducted by money or its representative. The demand is unknown. Over-production constantly occurs. . . . You see the purposes or motives of the use of the means of production in these two periods are different. The one is production for consumption *only*, the other is means of exploitation also. The craftsman of the Middle Ages had no wage-labourer to exploit. His motive was to get a living. The motive of the capitalist is necessarily an increase in surplus-value.

He lives under a mode of production wherein revolution in machinery and constant growth in the means of production are laws of his existence. The mode of production of the Middle Ages could go on for ever without growth and extension while the principle of production remained. The old craftsman made a tin can and exchanged it for a dozen eggs. He was no richer; there was no increase in value. Hence you see the necessity to differentiate the means of production in these two periods.

M.B. :—Hold on, you have contradicted yourself. You have been saying all along that exchange implies equality, haven't you?

M.S. :—Yes, quite right. What of it?

M.B. :—Well, you say that to-day production is for exchange, and in the same breath you say production is for profit or surplus-value. Ha! ha! I've caught you this time!

M.S. :—The two statements are quite correct. Production is for exchange and exchange implies equality. But it is not by exchange that surplus-value arises.

M.B. :—What are you saying? You are becoming involved (*patting M.S. on the shoulder*). Keep cool, or you'll make an ass of yourself. You see all money transactions are a result of exchange and profits cannot come where there is no money. Hence it must come from exchange. Better own up, old boy.

M.S. (feeling bumps of M.B.) :—Your penetration is remarkable. Let me clear one more cobweb from your thinking apparatus. On the market there are two orders of men—buyers and sellers. Every buyer must sooner or later become a seller, every seller must sooner or later become a buyer. Say the buyers have £50 and (supply and demand being equal, an assumption all economists have to make) the sellers £50's worth of commodities. There can be no increase in value (and consequently no surplus-value) from an exchange between these people any more than from a "change of

a £5-note into sovereigns and shillings." Here I must assume an exchange of equivalents. I am, however, prepared to admit that in practice exchange is not always between equivalents. Let the sellers be privileged to sell their £50 worth for £55 or £5 above their value. After the sale the sellers have to become buyers and now other sellers come to them and sell again £50's worth for £55. What the sellers gained as sellers they lost as buyers, and the same result would obtain if the buyers were privileged. The claim that surplus value is created by exchange is on a par with the famous legendary island where the inhabitants lived by taking in each other's washing. To quote Marx (*Capital*, Vol. I., p. 141): "The sum of values in circulation cannot be augmented by any change in their distribution any more than the quantity of precious metals in a country by a Jew selling a Queen Anne's farthing for a guinea."

M.B. :—I am getting quite giddy. Where on earth do profits come from?

M.S. :—Let me first state the problem clearly, or you will get more giddy. The Ricardian School failed mainly because it was unable to solve this problem. It was claimed by Ricardo, and most of the Classic economists, that value was created by labour. About the year 1830 this theory was energetically attacked on the following grounds :—All commodities are exchanged at their values. If labour is the creator of value, then the value of labour ought to be its product. Yet the value of labour (wages) is always lower than its product. Hence the surplus does not arise from labour.

M.B. :—Ah! I see. If exchange implies equality, then wages are the value, fair, full, equivalent value for the work performed by labour. There is no getting over that. That's a clean knock-out. I'll write Marshall and get him to give up marginal utility, as there is a better weapon to kill the labour theory of value. Good! very good! (*beaming with joy*).

M.S. :—Well, that question did knock the Ricardians

out. It also killed the Owenites, the disciples of Proudhon, and reduced Utopian economics to an ethical society which claimed that the value of labour *ought* to be the product of labour. But Marx entered the arena, answered the question, and once for all, rescued Economics from Utopianism, and made it a science.

M.B. (cynically smiling) :—Let us have the details of this wonderful exploit.

M.S. :—First of all he showed that the phrase “ value of labour ” was ridiculous. Labour is an activity that creates value, and can no more have value itself than gravitation can have weight, or space have height or depth. To say the “ value of labour ” is like saying the value of value. You cannot measure a thing by its own self. Besides, when the worker goes to the capitalist he does not sell his labour—that would be absurd. He sells his power to labour, or labour-power, a very different thing

M.B. :—Bosh ! What’s the difference between labour-power and labour ? Your distinctions are too fine. Don’t glare at me ! I repeat, what’s the difference ?

M.S. :—The difference between a machine and the operations that machine performs ; between your stomach and digestion, between my fist and a difficulty of vision on your part should it and your eye come into violent contact. Now don’t interrupt till I have finished my explanation. I was saying—the worker sells his labour-power (on credit till pay-day) to the capitalist at its full value. And the value of this commodity, labour-power, is determined by the amount of social labour required to produce, and, of course, reproduce it, as is the case with every other commodity. In other words, the cost of subsistence. But the capitalist having purchased this commodity has the full use of it under the conditions of sale—say 12 hours per day. That is, having paid its exchange value, he possesses its use-value. Don’t forget that. It’s important. Let us illustrate the point. A man buys an onion in 1860 and

another in 1918. He pays a different price on both occasions, but that doesn't interfere with his right to their full use, and whatever benefits are derived from their consumption belongs to him. Now labour-power, like the onion, is a commodity, and whoever buys it has the full benefits of its consumption. But labour-power differs from every other commodity in one particular—when set in operation it can create value. Let us say that the value of labour-power is measured by 4/- per day. The day by law or agreement between the commodity owners (workers and capitalists) is 12 hours. Labour-power put in operation creates in 6 hours (say) a value equal to 4/-. Say that the worker, having some knowledge of Economics, proposes to the capitalist that having now rendered an equivalent for his wages he will quit work. But the capitalist says: "Have I not bought your labour-power for 12 hours at its fair value? What value you create in that time belongs to me according to all the laws of fair and equal exchange." He sees that 12 hours' work are performed and himself pockets the difference between the exchange-value (wages) and the use-value (product); in other words, he pockets the value over and above the value of labour-power—surplus-value.

M.B. :—Oh ! So that is your wonderful explanation, is it ?

M.S. :—Yes, that solves the riddle of surplus-value. Just look over the question that seemed to please you so much just now and you will perhaps reconsider your decision to write to Marshall.

M.B. (*bursting forth indignantly*) :—Ah ! And to solve that difficulty you—you have reduced honest working men to the level of a stinking onion. I—I—

M.S. :—Hush ! You are criticizing capitalism. Be quiet, or if the authorities of your College hear you, you will be branded as a Socialist.

MANUFACTURE TO MACHINOFAC^TURE.

M.B. :—You promised to show me the difference between profit and surplus-value. I thought they were the same thing, but you Marxians are such sticklers for accurate definitions that I suppose you will be able to make or create some philosophical distinction.

M.S. :—You remember the old Biblical legend about the Tower of Babel? The Deity, by creating a confusion in the language of the people, broke down a civilization. When one man asked for a bar the other man would hit him with a brick (at least that is what an American writer tells us). You will see from this the necessity of calling things by their proper names. That precaution, I agree, most Marxians are particular about. But I deny their anxiety to “create philosophical distinctions.” The instance you refer to—the difference between profit and surplus-value—will show whether or not it is academic nicety that Marxians strive for. The ordinary interpretation of the word profit may be illustrated by the following example :—A capitalist invests £100 in industry. At the end of a year the £100 becomes £105. The capitalist then rightly concludes that he has made £5 or 5 per cent. profit. But a Marxian comes along and he asks : How was that £100 invested? He finds on investigation that £95 was spent on raw material and machinery and £5 in wages (a highly-developed industry). He then says to the capitalist : “The only commodity capable of creating value that you bought was the £5 worth of living labour-power, as neither dead machinery nor raw material can create value. Originally you possessed £100 in value, and now you possess £105 in value. You therefore invested £5 in value-creating commodities and now possess a surplus-value of £5, or 100 per cent. surplus-value; the net result of the whole transaction being that there is £5 in value more in the world than formerly.” Now, is that an academic nicety, or an important and profound distinction? Whereas the

profit is only 5 per cent., the surplus-value is 100 per cent. Is that merely a nicety of expression ?

M.B. :—That certainly is important and interesting. I only wish you were always as lucid and convincing. Now to your second promise. When and how did labour-power become a commodity ?

M.S. :—In England the process was something like this. Early in the 14th century England was practically feudal. The people were engaged mainly in agriculture under feudal conditions, *i.e.*, they had to render so many days' labour to the feudal lord. In the villages and towns, production was on so small a scale and the guild regulations so binding, that no one was allowed to employ more than two or three apprentices. Wage-labour was not dreamt of. Then arose the wool trade with the Netherlands. It was more profitable to grow sheep than men ; hence during the next century the peasants and serfs were expropriated from the land and forced to crowd the towns. There they were, a large army of men, with no property of any kind except the power locked up in their muscles and in their brains; (perhaps more in the former than the latter). Before these growing economic forces, the craft guild regulations crumbled to dust, and these expropriated workers sold their labour-powers for wages, since when there has been, as your morning paper will tell you, a "labour market."

M.B. :—But I thought you associated capitalism with industry on a large scale, and surely a better line of demarcation is what is known as the Industrial Revolution, which took place at the end of the 18th century.

M.S. :—Ah, yes ! that remark is characteristic of your school of thought. You take the dramatic periods in history and describe them as revolutions, which for you seem more to be a matter of dates than of principles. Capitalism commenced in the 16th century, not because of any invention of machinery, but because of a different principle in the organization of production. Your

works on the Industrial Revolution cover only from 1775, and are full of awe and wonder at the marvel of steam, comparable to that of a school child going for the first time to the seaside.

M.B. :—But surely you don't belittle the marvellous results of the application of steam to machinery ?

M.S. :—Certainly not ; but I object to the undue emphasis given to a factor that, after all, was not the most important. A steam engine was constructed as early as the 2nd century B.C. But it could not be applied to production until the division of labour had so revolutionized the mode of production as to make it practicable.

M.B. :—What do you mean ? The division of labour made the application of steam possible ! Explain yourself.

M.S. :—The application of steam to machinery becomes possible only when industry has passed from the old communism to handicraft, and then to manufacture. The handicraft stage of production contains elements of great permanence, and prevails largely in Asia to-day. But when conditions such as I have just described to you, which create a great army of wage-labour, appear, it breaks down and gives way to manufacture. Here all the separate handicraftsmen are united in one shop for the production of a whole commodity, as in the case of a union of the separate handicraftsmen whose combined labour makes a carriage ; or by the co-operation of a number of artificers in one shop, at first engaged in the production of, say, a needle, and that developing into each separate process being exclusively performed by one individual, which gradually ossifies into a systematic division of labour. Manufacture soon revolutionizes the tools of production when there is a growing army of wage-labourers constantly impelling it on. As Darwin points out : " Knives that are adapted to cut all sorts of things may, on the whole, be of one shape ; but an implement destined to be used

exclusively in one way must have a different shape for every different use." When this process goes on for a lengthy period, by the different shape of the instruments, production becomes so uniform that a simple combination of the tools makes a machine. Then the application of steam is possible, and, for the first time, economical. The division of labour has the effect of cheapening the commodity. There is no argument so powerful as cheapness for causing social development. Once introduced it grows ever more rapidly, shattering every prejudice, however ancient, that stands in its way; it is the "battering ram which breaks down Chinese walls" and forces a world market. Manufacture, then, soon leads to machinofacture, which is impossible without it. As Lassalle says: "For how could production, by means of machinery, be possible under the system of guilds, by which the number of men and apprentices which a master might keep was fixed by law in every locality? Again, under this system of Guilds, the different branches of an industry were marked off from one another in the most exact manner by law . . . so that . . . for hundreds of years the tailors who made clothes were engaged in lawsuits with the tailors who mended them, the makers of nails with the locksmiths, in order to fix the limits which separated their trades. . . . A stage had thus been reached at which production itself . . . had brought into existence . . . instruments of production . . . which would find no place or room for development in that system." You will see, my friend, even from this rough outline, the relative importance of the changes, vast and fundamental, which preceded the Industrial Revolution.

M.B. :—You have at least aroused my interest, and I shall investigate the matter more closely; but while you were speaking a thought arose in my mind which I have many times wanted to put to you, namely, that the development of machinery is not uniform or spontaneous, and therefore the proportion between the number of workers employed in one industry at different

stages must vary. If that be so, then, since labour, according to you, alone creates value, there must be different values produced in the same industry, whereas we know that on the market there is only one price. Hence it seems to me that all commodities cannot be sold at their values, which is surely a contradiction of the whole Marxian theory !

M.S. :—The point you now raise is quite irrelevant to what we have been discussing, and I cannot go into the matter now. If you will raise the point later I will show you that, far from being a contradiction, it is a point that excellently displays the evolutionary character of Marxian Economics, in harmony with the evolutionary character of industry. But first of all we must understand the division of labour among capitalists themselves, and must know a little more of the process of circulation.

CHAPTER IX.

COMPETITION.

WHAT is the mechanism, the process, by which value expresses itself in price? Most modern orthodox economists commence and end their studies of this question by an examination of price by itself. They take the student to the market; they show him the variations of supply and demand, and, generally speaking, they go no further. Supply and Demand are the great oracles of orthodox economics. You ask—What causes Price? and they reel off the glib formula: “If the supply of a commodity exceeds the demand for it, then the price falls, but if the supply of the commodity is less than the demand then the price rises.” If you go further and ask what determines Price when supply and demand are equal, they are either dumb or chatter something about marginal utility. Supply and Demand! What is Supply and what is Demand? If a ton of coal is priced at £1, then a ton of coal is a supply of coal, and at the same time a demand for £1, while £1 is a supply of gold and at the same time a demand for coal. But while the coal may have its life on the market the gold stays on and is exchanged, perhaps, for a bushel of wheat. If the supply of coal is more plentiful than the supply of wheat, then the price of coal may be low, but only because the price of wheat is high. To-morrow their rôles may be reversed and wheat may be low in price and coal high, so that their fluctuations cancel each other. And this will be no mere accident. For what will happen when the price of wheat is high? The capital waiting to be invested will be attracted to the production of wheat, and away from the industries where the price is low; the result being that more wheat will be produced, and so, to follow our economist, if the

supply increases the price is lowered. Now these forces are in constant operation over the whole field of industry. The capitalist wants to get the highest profit: the consumer wants to get the lowest price. Between these mutually opposing forces, and by their opposition, there is a constant tendency to produce an equilibrium. The capitalist may be ignorant of economics (he generally is), but he knows his own business. He knows what it has cost him to place his commodities on the market and he reckons his profit from the difference in the price he secures for his commodity and what it has cost him to place it on the market. But if he is to make a high profit, which is the chief object of his existence, then he must make a larger profit than the capitalist with whom his commodity is to be exchanged. So that if one capitalist makes a high profit, it is clear that some other capitalist must have made a low profit. No capitalist likes to make a low profit, so in this business of profit-making he has to struggle with his fellow-capitalists and absorb himself entirely in his business. Not merely must he do this to obtain high profits, but even to keep in existence as a capitalist. And this condition is not of his making. It is a condition above and independent of his will. The life of the capitalist is pre-determined. "Thus shalt thou do—or become* a wage-labourer." The great weapons with which he may defeat his competitors is the cheapness with which he can place his commodities on the market, or the amount of energy he can extract from his wage-labourers in excess of his competitors. By equipping his works with the most highly-developed labour-saving machinery, and by arranging the most vigorous supervision of his workers, he may for a time achieve his desire. But no sooner has he achieved this result than his rivals have adopted his methods—or superior ones—and the struggle begins again. To escape the grind he may join with his competitors and try to form a monopoly. But as soon as this is secured another monopoly is formed to compete with his monopoly. Competition

has only been intensified on a larger scale. There is no escape. The productive forces of production, having been unleashed, compel with ever-increasing rapidity its full development. It is these forces constantly pulling in opposite directions which tend to produce a momentary equality. If prices of commodities are too high, forces are immediately set in operation to increase the supply and so bring the prices down. If profits in certain branches of industry are too high, capital is attracted to that industry, production is increased, prices fall, and profits follow. If prices of commodities are too low forces are immediately set in operation to decrease the supply and so increase the price. If profits are too low, capital flows from that industry, production is decreased, prices rise, profits follow. Thus is the law of an average rate of profit brought about; thus does the law of value force the price of commodities to conform to the quantity of social labour required to produce them within the limitations of capitalism.

Great care must be taken with the foregoing. For instance, it must not be assumed that low prices mean absolutely low profits. Low prices may indicate that a branch of industry may have very highly developed labour-saving machinery, and that relatively little value is embodied in the commodities. And even when the rate of profit may have fallen the total quantity of profits to the capitalists may have increased. Thus a business in which only £1,000 is invested may return 10 per cent, or £100, while a business in which £10,000 is invested may only return 5 per cent, which would mean £500 in profits. Again, when we say "forces are set in operation," we do not mean any conscious directing force. We mean that it is the nature of every capitalist to seek his own interest, and that in doing so he brings about certain conditions with certain definite results. In a system of industry such as capitalism the individual is powerless: he sees only his immediate task. The total effect of the actions of individual

capitalists may lead to very unpleasant results for the capitalists themselves, but even if they could foresee these results they would be powerless to prevent them. But the system is such that they see nothing but their own immediate aims. A scientific analysis shows that capitalism cannot last, because it is full of contradictions which lead to destinations destructive the one of the other. To see this a certain detachment of mind is necessary, but the capitalist, intent on getting rich quick, is unable to bring that detachment of mind to bear on the task. Shrewd man that he is, he thinks that it is his cleverness in selling at a price greater than his cost of production that gives him his profit, and that he draws down this profit from the market. If he were told that he is compelled to sell at the cost of production, and that his profit comes not from the market but from his factory, and that by exploiting his wage-labourers his profit came as a deduction from the cost of production ; if he were told this, he would not believe it, but unquestionably this is the fact, as we shall see later on.

The orthodox economist, with his eyes on the higgling of the market, the shallow formula of Supply and Demand on his lips, and his mind going no deeper than the purely psychological factor of utility, is in no better case. He has started at the wrong end of the problem, and, consequently, while the problem is wrongly put, there is no hope of a correct answer. Instead of looking at the evolution of production he is concerned with the will and desire of the individual.

The mechanism of the process by which value asserts itself and compels price is then through competition. But, it will be objected, that is very similar to what the orthodox economists have said. That is not the case. The economists say that supply and demand causes price. We say value causes price, and that supply and demand, far from being the cause of price, are caused by the competitive movements in which value is causing price. What the economists see as the

accidental unknown cause of the markets, we see as the inevitable movement of the law of value. Underneath the fluctuations of the higgling of the market the social labour embodied in commodities is making its influence felt through its unconscious instruments. The law of gravity thus asserts itself when a house falls about our ears.

CHAPTER X.

A CRITICISM OF MR. J. R. MACDONALD'S "SOCIALISM AND SOCIETY."

HAVING completed those outlines of some of the fundamentals of Marxian Economics, it is proposed to devote this and the two remaining chapters to a refutation of some criticisms of Marx.

Mr. Macdonald's book is chosen because it has had a fairly wide circulation in the Labour Movement. The references to Marx are sometimes sympathetic, sometimes arrogant, but always irritably patronizing. They amount substantially to the claim that Marx was intellectual heir to Hegel; was consequently pre-Darwinian, and, therefore, as regards the laws of social change, non-scientific. However, let Mr. Macdonald speak for himself.

But his (Marx's) conception of the method of social change misled him as to how the Socialist forces were to act. Darwin had to contribute the work of his life to human knowledge before Socialism could be placed on a definitely scientific foundation (pp. 98-99).

Change presented itself to Marx, not as a process of functional adaptation, but as a result of conflicting economic interests seeking equilibrium. Hence to this day the metaphysical and logical faults of the Hegelian dialectic are vitiating the theories and dogmas of one Socialist school—the Marxian (pp. 101-2).

Biology alone was competent to give the clue to the proper understanding of the process of evolution because it was the science which dealt with the modes of change followed by organisms, *and biology was as yet but stuttering its wonderful tale* * (p. 104).

But Hegel was no biologist, and Hegel, not Darwin, was intellectual father to Marx (p. 105).

* (Italics mine.)

The place which Marx occupies is on the threshold of scientific sociology but not altogether over it (p. 109).

Thus Macdonald on Marx! Before dealing with these statements, let us follow Mr. Macdonald and see what Marx missed by unfortunately being—as it is alleged—pre-Darwinian. Starting with what he calls his "key idea" in his mind, Macdonald glances over the pages of history. Now, then, we are going to be initiated into the superior rites. The "key idea" is going to unlock the methods of social change. Marxians, attention! Sir Oracle is going to speak!

History (says Mr. Macdonald, on p. 37) is a progression of social stages which have preceded and succeeded each other like the unfolding of life from the amoeba to the mammal, or from the bud to the fruit. To-day we are in the economic stage. Yesterday we were in the political stage. Tomorrow we shall be in the moral stage.

Without stopping to inquire as to how people lived before there was an economic stage; whether "yesterday," when we were in the political stage, the people ate and drank politics, or whether they were clothed in that surely somewhat unsubstantial attire: but brushing this aside as a mere rhetorical flourish, we follow Mr. Macdonald through one of the "social stages."

The next chapter (he proceeds, p. 39) is marked by the organization of the masses into a political unity and their initiation into the rights of citizenship. The opportunity of progress through this second stage comes first of all from the needs of the central authority—the sovereign—to maintain its position against the local and clan disintegrating forces, or against rival sovereigns.

Then follows the remarkably irrelevant interjection:

This leads to the establishment of some measure of political and economic freedom for the Plebs—in other words, a nerve connexion between the central nucleus and the surrounding mass.

Notice the biologic "key idea."

Meanwhile the mass itself ceases to be amorphous and becomes differentiated into functions, *e.g.*, trades and classes.

Passing aside this obvious error—that an amorphous mass (shapeless and undifferentiated) should have already been differentiated into sovereigns and clans, not to speak of Plebs, who already had some measure of political and economic freedom—passing this aside, it remains to ask of this “key idea”—How did this mass cease being amorphous and become differentiated into trades and classes? But the only answer the “key idea” vouchsafes—an answer as sad and sorrowful as the one given by Poe’s raven—is, “The economic stage is beginning; the political one is fading away into the accomplished past” (p. 40). All this, we presume, is biology “stuttering its wonderful tale.” If so, we are at one with Mr. Macdonald as regards the stuttering. It is a pity space will not allow us fully to quote the next page (41), for it is chock-full of this wonderful stuttering, together with still more wonderful and irrelevant (to those who do not stutter) interjections about what is going to be.

But, however strong the temptation to go on with Mr. Macdonald, we must resist it, as we have more important work to do. We have given an example of what Marx is alleged to have missed, and even if it were true we do not think Marxians would have great cause to regret. We must now, however, respectfully—not to say modestly—point out the few omissions Macdonald has been guilty of while “stuttering his wonderful tale.” He has taken quite literally the view that Society is a *biological* organism. Spencer had shown quite a remarkable number of analogies between society and a biological organism and also an equal number of differences. He had never claimed more for this than some analogical resemblances, which he described as a “parallelism of principles of components” which refer only to structure, and not to *laws of change of structure*: but Mr. Macdonald out-Spencers Spencer in this connexion. He insists—though without proof (as a matter of fact, analogy is sufficient proof for him)—that Society is actually and literally a *biological* organism (p. 32);

and, while ignoring some of the differences quoted by Spencer, attempts to bridge over others, *e.g.*, he states that the social organism need not have an external form. and further makes the remarkable claim that society is conscious—not only so, but keenly self-conscious. Surely this is biology run mad. We must, however, leave Mr. Macdonald to fight this matter out with eminent biological students like Prof. Lester Ward ; we as Marxians join issue with him when he states that 'Biology alone was competent to give the clue . . . because it was the science which dealt with the modes of change followed by organisms.' If this is true as applied to society, then Mr. Macdonald's criticism of Marx is to some extent justifiable ; but if it is not true then he must revise his criticism in accordance with the facts.

Let us investigate. If we examine the lowest animal organism, the amoeba, we find there are no structural differences. The organism is stomach, body, and limbs, all at the same time. They are unicellular (one-celled) organisms, and there is no division of labour. The process of nutrition is the same throughout. If, however, we examine more highly developed organisms, say bees, we find a considerable division of labour, and consequently proportionate differences in structure. Thus the queen bee is physiologically different from the worker or the drone. These differences are due to the division of labour. Each order of bee has a different function to perform in bee economy, and the difference in function causes a difference in structure. The "law of change" is biological, and Mr. Macdonald's statement is, so far, absolutely correct.

Let us now, however, leave animal and come to human societies. Physiologically there are no differences here. Unlike bee society, the woman worker is here physiologically identical with the queen, and with a little training (on both sides) they might change places, and

society remain unhurt ; the human drone*—the idle rich—might (also with some training) change places with the human worker, and the change might be advantageous. But is there no division of labour in human societies ? Oh, yes ; a much more complicated division of labour than in any animal society. But why are there no physiological differences ? What becomes of the biologic law of modes of change ? The reply should startle Mr. Macdonald. It is this—*The biological law is arrested and has practically ceased to operate in human societies !* The reason for this is quite simple, and was pointed out in the first chapter. When man invents a tool wherewith to unlock the storehouse of nature he interposes a barrier between his body and nature. In his food-getting, it is the tool that receives the actual contact of mother earth, and as a consequence the extended division of labour causes *changes in the tool, i.e.,* man makes the changes. Difference of function does not mean difference of physiological structure ; it only means difference of tools. The difference between a miner and a weaver is not shown by any bodily difference, as in bees, but only by the different tools used by them.

The change is no longer physical (biological) but tool-constructional (economical). When man in society develops new functions, he does not develop new structures (*e.g.*, to increase his powers of vision he does not develop the muscles of his eye, but accomplishes his object by the invention of telescopes and microscopes ; to develop his powers of lifting weights, it is not so much by attending gymnasiums as by inventing cranes ; he acquires power to fly, not by developing wings, but by inventing machines ; and so on). Thus, to paraphrase Mr. Macdonald, "the economical stage is beginning ; the biological one is fading away into the accomplished

* I am quite aware of the poverty of the analogy between human and bee drones, as the function of the latter is of considerable utility to bee society.

past." It is the relation of society to the tool that must now be studied. *As the tool changes so does the form of society.* This is the discovery of the "pre-Darwinian" Marx. It is the private ownership of the tool by a few, and the absence of ownership by others that causes class divisions—not a biologic but an economic category. As the tool develops from the spear and pottery to agriculture and manufacturing implements, so does society emerge from savagery and barbarism through the various economic stages of civilization, viz., Slave-ownership, Feudalism and Capitalism. By a study of the changes of these tools (Economics) Karl Marx was able to describe the *law of motion* of society—without the aid of analogy. To arrive at this result was the work of forty years' study. To-day there is no one who occupies so commanding a position, so large an audience in social science, as Karl Marx. His analysis of the existing order of society was so successful as to pass the highest scientific test, viz., accurate prediction, and has won for him the admiration of most of that great world-army who are engaged in preparing the way for social transformation. Of this man Mr. Macdonald writes: "Neither Marx nor Engels saw deep enough to discover the possibilities of peaceful advance which lay hidden beneath the surface. Their analogies (?) misled them" (pp. 108, 109). This from Mr. Macdonald—the superficial thinker who tries to construct a social science by biological analogy!

And now a word as to the charge that Marx was pre-Darwinian. It is not true. Marx knew Darwin's work well, so well that he could combine it with his own work, as the following instance shows:—

The manufacturing period simplifies, improves, and multiplies the instruments of labour, by adapting them to the exclusively special functions of each detail labourer. Darwin, in his epoch-making work on the *Origin of Species*, remarks, with reference to the natural organs of plants and animals: "So long as one and the same organ has different kinds of work to perform, a ground for its changeability may possibly be found in this, that natural selection preserves or sup-

presses each small variation of form less carefully than if that organ were destined for one special purpose alone. (p. 333, Vol. I., *Capital*).

It would be folly to belittle the work of Darwin, but surely Darwin himself would object to the use Mr. Macdonald makes of him. According to him Darwinism is the universal science—a knowledge of the origin and development of species is sufficient for the whole philosophy of society! He would ignore the thousands of years of scientific work of past investigators—they were pre-Darwinians. For him Herakleitos, Aristotle, and Hegel are “dead dogs.” A word also on the charge that Marx was intellectual heir to Hegel. Space will not allow of adequate treatment of this point; but we quote a great authority—Dietzgen.

The theory of evolution which we will not say was solved, but was considerably stimulated and advanced by Hegel, received before all at the hands of Darwin, an exceedingly valuable application or specification in relation to zoology. Still we must not lose sight of the fact that the specification was of no greater value than the generalization in which Hegel excels; the one cannot be without the other. The naturalist combines the two, and no philosopher who deserves the name will fail to do so either (*Philosophical Essays*, Joseph Dietzgen, p. 316).

To conclude. If Mr. Macdonald can appreciate what Marx achieved—*i.e.*, an analysis of the existing order, thereby discovering the law of motion of society—he will not need to trust to superficial and—to himself—dangerous analogies. Incidentally he will find out why the woman worker is not—contrary to biologic law—physiologically different from the queen, and, what is infinitely more to the point, will understand the actual causes of the economic differences between them. He will not need to stand with his “key idea” “at the the threshold of Socialist speculation,” he will be altogether *over* it. It is now some hundreds of thousands of years since human societies arrested the law of biologic growth. Let us be generous—Mr. Macdonald’s book is only a *few* centuries behind the times.

CHAPTER XI.

ECONOMIC RENT.

IN orthodox Economics the treatment of economic rent remains, with slight modifications (enfeebled and disguised as "producer's surplus" by the Utility school), just as Ricardo left it. We shall therefore summarize the Ricardian theory and afterwards summarize the Marxian contribution. This is all that can be done in a short chapter.

Ricardo's Theory.—"On the first settling of a country in which there is an abundance of rich and fertile land a very small proportion of which is required to be cultivated . . . there will be no rent. It is only . . . because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it" (*Principles*, pp. 46, 47). There is only one price on the same market, so the produce of the least fertile land having to be sold, its price rules the market. Say that on the least fertile land £100 capital and labour (old style expression) will produce 2 quarters of wheat, while the same capital on the most fertile land produces 3 quarters of wheat. Then the difference, 1 quarter, will constitute—Rent. This will be paid to the landlord of the best land for the use "of the original and indestructible powers of the soil." No rent will be paid to Landlord No. 2 until land of the third best quality is cultivated, which—assume—produces with £100 only 1 quarter. Then Landlord No. 2 will get the price of 1 quarter wheat as rent, while the rent of Landlord No. 1 will rise to the price of 2 quarters. "With every step in the progress of population which shall oblige a country

to have recourse to land of a worse quality, to enable it to raise its supply of food, rent on all the more fertile land will rise" (*Ibid*, p. 47). In short, the differences in the fertility of land constitute—Rent. The same thing applies when additional capital is applied to the same piece of land. If £200 is applied to a piece of land where formerly only £100 was applied, the returns to "Capital and Labour" are not twice as much. If £300 is applied the return is proportionately still less, etc. This is called diminishing returns. The differences in the productivity of the several doses of capital also constitute Rent. Thus Ricardo!

Marx's Theory.—Rent passes through four successive stages, Labour-Rent, Rent in kind, Money-Rent, and Capitalist Ground Rent. The first three are merely modifications of each other, and indicate that society is passing through the successive stages of slavery and serfdom, and Money-Rent indicates agricultural production in capitalist society before it has been converted to the form adapted to the ruling mode of production. But Capitalist Ground Rent is distinctly marked from either of its predecessors, the difference being that in each of these earlier forms, rent was merely surplus-value (as indeed it must be) whereas in Capitalist Ground Rent the rent is the surplus *over and above* the average rate of profit obtained in industrial production. The problem to Marx was:—Where does this surplus come from? Why this difference between agriculture and industry? Ricardo did not—could not—see the problem, as to him there was only one form of rent, viz., Capitalist Ground Rent, which had always existed since the "first settling of a country." Marx thoroughly analyses the whole of this difficult problem, and finds, contrary to Ricardo's idea, that there are two forms of rent: (1) Differential Rent (the only kind known to Ricardo, which we have stated in the summary of Ricardo's theory), and (2) Absolute Rent, which we shall explain, after criticizing the form of differential rent expounded by Ricardo. According to Ricardo

cultivation proceeds from the most fertile to the least fertile soil (see *Ibid.*, p. 49). Marx shows that this is unnecessary, and gives historical examples to the contrary. Granting Ricardo's old-fashioned notion about the first "settling of a country," then fertility may well be of not so great importance as situation. The most fertile land may be so far away, and the means of transportation so undeveloped, that it would be more economical to cultivate the nearer though less fertile soil. Again, since the time of agricultural chemistry, fertility can to some extent be artificially acquired, and poorer soils thus become the most fertile soils. But even so, this point, so far as we have inquired, is of little importance, as a mistake of Ricardo, because competition would soon readjust matters.

But the next step of Ricardo's argument (showing the real importance of the criticism) goes on as follows:—"The best land being first cultivated pays *no rent* until the second best land is cultivated, when the difference is paid to Landlord No. 1. The next best land brings Landlord No. 3 into the rent-receiving category, and so on *ad infinitum*." Here, then, we see the phenomenon of one land (the least fertile) paying no rent at all. Is this a signal instance of landlord's philanthropy? Whether or not, the absurdity has remained in economic science practically without question. Marx mentions the few cases, which have also been seized upon by some economists, where this strange state of affairs is possible:—(1) When the landlord becomes his own capitalist and cultivates the land himself (*i.e.*, his labourers do), and (2) where some parts of the land do pay a rent and others do not, on account of differences in fertility in the same piece of land. But these examples are insufficient to explain the difficulty. To do this a term must be used which has not previously been explained in these *Outlines*, and which can only now be briefly described. That term is the "Price of Production." The Marxian analysis concludes with the explanation that commodities are sold not at their

values (except in certain cases) but at their Prices of Production, that is, the cost to the capitalist, plus the average rate of profit.

Example.—Commodity to be produced takes £80 machinery and raw material, and £20 wages=£100 cost to the capitalist. The average rate of profit—assumed—is 15 per cent. Then on the average that commodity is sold on the market at £115. Assume surplus-value is 100 per cent., then £80 machinery and raw materials+£20 wages+£20 surplus-value=£120, so Value would be £120, while Price of Production (market price average) would be £115. Value is reduced to Price of Production through the equalization by competition of all the separate capitals engaged in social production (otherwise capitalist production could not exist). Now the rise of Capitalism in industrial production found a great difficulty in trying to convert agriculture to its own methods. That difficulty was the pressure of the landlord. The peasant or serf had always paid his surplus produce to the landlord, who was not likely to forego his due.

How to make the farm a factory and the farmer into a capitalist employing labourers and yet pay compensation to the landlord? No capitalist would employ his capital in agriculture unless he could receive the same average profit that he could get in industry. But Capital is the lord of production and agriculture must become capitalist. The workers' means of subsistence comes largely from agricultural products. It is therefore of paramount importance that these products be cheapened so that wages can in consequence be also cheapened, and therefore profits be increased. The price to be paid for this is—Capitalist Ground Rent. This takes place in the following way:—The profit made on agricultural capital *does not enter into the equalization of profits* as is the case with industrial capital. In agriculture the proportion per £100 paid in wages may be considered to be larger than in industry. This means that surplus-value (which is reckoned on

wages or variable capital) is therefore greater. The capitalist farmer exacts his average rate of profit, but the surplus over this average, instead of entering into the general equalization of profit, and so increasing the average rate, has to be handed over to the landlord. Thus the landlord levies his toll on capitalism, which was at the bottom of the antagonism between Lloyd George and Balfour over the 1909 Budget. (See their speeches.)

This answers the problem as regards the differential rent, and we can say more fully than Ricardo could, that though the differential rent is based on differences of fertility of soils, yet rent is due to the action of competition in social production. "Rent comes from society, not from soil." But we were considering the phenomenon of rentless land. What is the state of affairs as regards the worse lands—the so-called no-rent land? This is the problem of Absolute as distinct from Differential Rent. We have shown that the proportion per £100 paid in wages may be greater in agriculture than in industry. This means that the individual Price of Production is lower to the capitalist farmer than it is to the industrial capitalist. Assume, as before, agricultural product = £120 in value. Price of Production = £115. But Price of Production on same composition of Capital in industry is, say, £118. So on the market the price is £118. The difference, or £3, is paid to the landlord of the worst soil (absolute rent) and in consequence is added to the differential rent of the more productive soils. While £2, *i.e.*, the difference between the social price of production £118, and the value of the commodity £120, enters into the general equalization process.* Thus there is no rentless land except in the imagination of orthodoxy, and in time

* Whether this £2 will or not enter into the general equalization depends upon supply and demand. If rent equals excess of value over price of production not a penny will enter into equalization. For a fuller explanation see *Capital*, Vol. III., p. 885

it will stand as one of the most prominent superstitions evolved by a science that tries to serve the God of Science and the Mammon of Capitalism at the same time.

This is only the barest of outlines, and those who desire to enter more deeply into the marvellous analysis of Marx (one of his most exhaustive and elaborate) should consult the third Volume.

The answer to the problem with which we started out then, is :—That surplus profit which becomes rent has as its basis : (1) the different fertility of the soil acting on the equalized market price through competition, and (2) the escape of the landlord from the equalization of profit to an average rate on capital applied to his land. This is the cause of rent and of the consequent antagonism between landlord and capitalist, and ought to make clear many of our present political squabbles. As Marx admirably expresses it : “ We can understand such economists as Mill, Cherbulliez, Hilditch, and others, demanding that rent should be handed over to the state to be used for the remission of taxation. That is only the frank expression of the hate which the industrial capitalist feels for the landed proprietor, who appears to him as a useless incumbrance, a superfluity in the otherwise harmonious whole of bourgeois production.”

CHAPTER XII.

THE "GREAT CONTRADICTION"

Note on Explanation of Terms Used.—(1) *Composition o Capital*.—Capital is divided into (or composed of), two main elements: (1) Accumulated past labour, *i.e.*, machinery and raw material; and (2) living labour-power, *i.e.*, wages capital. The proportion between these two is called the composition of capital. Spoken of in units of £100.

(2) *Constant Capital*: abbreviated in the text to the letter "c." That part of the £100 invested in machinery and raw material is called constant capital because its value does not change. If, say, it is £80 value before production commences, it will only be £80's worth of commodity when it is sold.

(3) *Variable Capital*: abbreviated in the text to the letter "v." That part of capital per £100 invested in labour-power, *i.e.*, wages, is called variable, because, being value-creating, it varies in value before and after production. If it is £20 value before production it may represent £40 when commodity is sold.

(4) *Surplus-value*: abbreviated in text to the letters "sv." The difference between the value in use and the value in exchange of labour-power.

THIS is our last chapter. It will have been seen that no systematic course has been adopted, the object being to break the back of the most controversial of the questions in current Marx-literature. Should it result in some of our readers making a fuller investigation of this subject from Marx's own works, the writer will be quite satisfied.

The "great contradiction" (as it is called) in the Marxian theory has for its chief exponent Boehm-Bawerk, the eminent Austrian apologetic economist. Its history is as follows:—Engels in his preface to the second volume of *Capital*, found it necessary to refute certain statements to the effect that Marx had merely plagiarized Rodbertus (a Prussian contemporary). In

order to demonstrate more clearly the impossibility of this he sets a problem to these people dealing with a subject that had only partly been entered into in Vol. I., and the explanation of which was to appear in Vol. III., which could not be published for some months. Those months became nine years (1885-94). In these nine years, says Boehm-Bawerk, there grew up a regular prize-essay competition to solve this contradiction. "I consider it," he goes on to say, "one of the most striking tributes which could be paid to Marx as a thinker that this challenge was taken up by so many persons, and in circles so much wider than the one to which it was chiefly directed. Not only the followers of Rodbertus, but men from Marx's own camp, and even economists who would probably have been called by Marx vulgar economists, vied with each other in the attempt to penetrate into the probable nexus of Marx's line of thought, which was still shrouded in mystery." The charge of plagiarism was dropped like a hot coal. The problem had done its work. What was the problem?

The Problem.—According to the labour theory of value, it is only the living element—labour-power—that can create value. Machinery, however productive it may be, is only the result of past labour, and can only transmit its own value to the product. It cannot increase that value. In the actual world of production the proportion of machinery and raw material (past labour) to living labour power varies. Of £100 invested £90 may in one case be invested in machinery and raw material and only £10 in labour-power, while in another case £60 may be invested in the former and £40 in the latter. Obviously, then, in the case where £40 per £100 is invested in labour-power more value will be represented in the product than would be the case where only £10 was so invested. Equally obvious does it appear that if these commodities are sold at their values estimated in labour the capitalist who invests £40 per £100 will secure a higher return on his money than the capitalist who only invested £10 per £100. And yet

everybody knows that a Carnegie whose capital consists mainly of machinery does not get less return per unit of capital than a small millowner with old-fashioned machinery and much labour-power. What is more, it is a fact acknowledged by Marx (in fact, it is Marx who first analysed this fact), that there obtains an equal average rate of profit in all the spheres of production whatever the composition of the capital may be. The challenge of Engels is in the following words:—"If they (the Marx-critics) can show how an equal average rate of profit can and must come about, not only without violation of the law of value, but by means of it, I am willing to discuss the matter further with them." The third volume of *Capital* appeared, and Engels criticises in the preface the answers to the problem he set. No one had solved the question though a few had come near it. But Engels does not point out any definite passage wherein the solution is contained. Boehm-Bawerk looks up the third volume and fails to find the solution. Given space, it would be very interesting to show why he failed, but this is not important, and must be put aside for some other occasion. Failing to find the solution, Boehm-Bawerk writes a book in commemoration of an eminent Austrian professor which is devoted to showing the impossibility of reconciling what he calls the "great contradiction." The book is entitled (tragically enough) *The Close of the Marxian System*, was published in English by Fisher Unwin, and may now be seen in the British Museum. As economic criticism, a novice could easily detect the superficiality of this book. Nevertheless it is well written, and in a very smart, spicy, and entertaining manner. Its method is the *reductio ad absurdum*. Here is a sample. Speaking of Marx's system of averages B.-B. says:—

A mayfly lives only a single day, while an elephant lives 100 years. On the Marxian plan we might say that in spite of these variations we can strike an average length of life of 50 years and 12 hours between them. For by as much time as the elephant lives longer than the fly, the fly lives

less than the elephant. The deviations from the average mutually cancel each other.

Readers who *do not know* the "Marxian system of averages" will be inclined to smile, and readers who *do know* that system will also be inclined to smile, but from rather different conceptions of where the humour appears. Boehm-Bawerk regards the Marxian system as the aberration of a great mind, which aberration he is reluctantly compelled to point out. After explaining the alleged contradiction he shows the impossibility of its solution. So precise is he in this that he reduces his ideas to the form of the following dilemma:—

Either products do actually exchange in the long run in proportion to the labour attaching to them—in which case an equalization of the gains of capital is impossible; or there is an equalization of the gains of capital—in which case it is impossible that products should continue to exchange in proportion to the labour attaching to them.

Thus Boehm-Bawerk publishes his failure to solve the problem, and restates it in an apparently insoluble way.

Marx States the Problem.—It may be of interest to know what Marx himself says on this point. Was he aware of this contradiction? Let us examine *Capital*, Vol. I.: "This law clearly contradicts all experience based on appearance. . . . Everyone knows that a cotton-spinner who, reckoning percentage on the whole of his capital, employs much c. (machinery and raw material) and little v. (labour-power) does not pocket less than a baker who employs much v. and little c. capital" (p. 293). "I shall show in Book III. . . . that various rates of surplus-value may, under given conditions, express themselves in a single rate of profit" (p. 533). "We shall see in Book III. that the rate of profit is no mystery as soon as we know the laws of surplus-value" (not otherwise). Marx then was very well aware of this apparent contradiction. It is said, however, that he constantly contradicts in Vol. III. what he says in the first volume, saying in the first volume that commodities are always *sold* at their

labour-values and denying this in Vol. III. This is important enough to investigate, and has a close bearing on Boehm-Bawerk's dilemma.

It requires a fully developed production of commodities before, from accumulated experience alone, the scientific conviction springs up, that all the different kinds of private labour . . . are constantly reduced to social labour. . . . And why? Because in the midst of all the accidental and ever-fluctuating exchange-relations between the products, the labour-time socially necessary for their production forcibly asserts itself like an over-riding law of nature. The law of gravity thus asserts itself when a house falls about our ears. The determination of the magnitude of value by labour-time is therefore a secret hidden under the apparent fluctuations in the relative value of commodities (Vol. I., p. 46). We have, in fact, assumed, that prices = value. We shall, however, see in Book III. that even in the case of average prices the assumption cannot be made in this very simple manner (Vol. I., p. 203, F.) (See also pp. 576-7).

It can be seen from this that not Marx, but Boehm-Bawerk, makes the erroneous statement that commodities, according to Marx, are *sold* at their values. A diligent study of Vol. I. and II. will show that in no place (except when he deliberately *assumes* it) does Marx say that commodities are *sold* at their value. What he has laid down, and that with the precision of a social law, is that the values of commodities are determined by labour-time socially necessary to *produce* them. But as has abundantly been shown in previous chapters that value is not created in exchange but in *production*. Value is only *realized* by exchange. Between the production and consumption of commodities there obtains the sphere of circulation. Large numbers of capitalists are engaged in the unproductive work of circulation. What effect has this on value? Boehm-Bawerk has never thought of this. What has he been doing? The first horn of his dilemma is sadly damaged. Let us look at it now. "Either products do exchange in the long run in proportion to the labour attaching to them—in which case an equalization of the gains of capital is impossible. . . ." Now if we substitute "commodities" for "products" and "social labour-

time " for " labour," the first part may quite reasonably be consistent with the latter part. For if one commodity exceeds, and another falls short of, the social labour-time, there is no impossibility in the uniform action of the market equalizing these differences. The process will be shown later.

A Missing Link.—What Boehm-Bawerk fails to see is the difference between production and circulation. He talks of them as if they were one. He might with as much reason have said that if a certain material, to be put through a crushing machine, were uneven, it would therefore be uneven after it had been crushed. Of course it remains to be shown that the process of circulation does unify the differences of production. This we have now to do. In a world where there is no change, no movement, no accumulation B.-B.'s criticism would be quite legitimate. But capitalist society, as has been shown, is composed in all its industries of different spheres of production. If not, there would be no big and little firms, there would be no competition, in short, no capitalism. Capitalist society is maintained only by constant increasing revolution in all spheres. The forces of competition constantly shout in the ear of the capitalist—"March! March! March! Bigger and yet bigger machines; more division of labour; larger armies in the industrial battle; constant displacement and replacement of labour-power; Competition! Competition! On! On! to your impending doom." But in any given sphere of production immediately there is an improvement in machinery by any one capitalist, it is clear that the theory that commodities are sold at their values meets with a disturbing force which will deflect the operation of that theory. New conditions obtain, hence new results necessarily follow. Let us consider a given industry, say that devoted to the production of hats. We should find the various capitals composed of different proportions of machinery and raw material to labour-power. Thus obviously the values *produced* would vary. But

on the market the hats would be *sold*, not at various prices, but at the *same* price. What would that price be? According to Marx the price would be equal to the value of the commodity produced by the capital whose composition (C. and V.) would be equal to the average composition of the whole capital employed in that sphere of production. Assume that this would be a capital of $75c.+25v.$; assume also that the degree of exploitation or surplus-value in that industry would be 100 per cent. The price would then be $75c.+25v.+25sv.=£125$. Here then commodities *are sold* at their values. But in all other capitals the commodities are obviously *not sold at their values*. But that does not make the theory of value untrue, as we shall soon see. Take a capital composed of $60c.+40v.$ (and surplus-value being 100%)+ $40sv.$ The value *produced* would be $£140$. But on the market, as we have seen, only $£125$ is received. Hence $£15$ value is not accounted for. What becomes of it? Let us see. Take now another capital composed of $90c.+10v.+10sv.$ Value *produced*= $£110$. But as we have seen value received= $£125$. Hence $£15$ *received* and not produced. From where does it come? From capital composed of $60c.+40v.+40sv.$, which is called capital of lower than average composition. This process goes on all over industry; "lower" capitals producing greater value because they employ more labour-power have to give up all over and above the average to "higher" capitals, and thus *an equal average rate of profit* (in our example— $£25$) is brought about. If this were not so, capitalism could not exist; "progress" could not take place, and we should have the state of society in which Boehm-Bawerk's dilemma would be relevant. For why would capitalists employ more machinery (non-value-creating capital) and less labour-power (value-creating capital) if they could not get the average rate of profit?

The eventual result (as we have shown in previous chapters) of improvements in production is to produce more commodities (wealth) at the same value. But

does not this destroy the theory of value? No more than a daisy growing in a field, in apparent contradiction to the theory of gravitation, does in reality contradict that theory! How do we measure the disturbance of value where commodities are not sold at their values? *Only by the theory of value. The deviation coincides with the extent of the disturbance.* The apparent "contradiction" is the strongest proof of the accuracy of the theory. Under capitalism, Marx's contention is that value in the market is reduced to price of production, *i.e.*, cost to the capitalist and average profit, in our example, £152. But before the price of production can be explained value must be explained in its actual working. Vol. I., called *Capitalist Production*, where, as we have seen, value does obtain in its purity, is, of course, devoted to an explanation of value in its purity. Vol. II., called *Capitalist Circulation*, is devoted to the disturbing effects of circulation. Vol. III., called *Capitalist Production as a Whole*, is devoted to the operation of production and circulation ("purity and disturbances") as it is in the actual industrial world viewed as a whole. Only now Value is seen to be reduced to price of production. This is the method of all science. Newton first examines gravitation in its purity, and then only is in a position to explain and measure disturbances. Darwin first examines selection in a pigeon-cote protected by the artifices of civilization. Then and then only is he in a position to go out into the world and examine selection according to nature with all its disturbances. So also with Marx. But Boehm-Bawerk, still influenced by pre-evolutionary methods of reasoning, argues as though the world were static, just like some of the old Greek schoolmen. Compare, for example, his dilemma which we quoted, with this old Greek puzzle which was once considered good reasoning: "If a thing moves it must move from where it is to where it is not. It cannot move from where it is because if it does it would not be where it is. It cannot move where it is not, because it is not there." Yet things do

move. If the proportion between machinery and raw material and labour-power were the same in every sphere of production, then the theory of value as derived from production would also apply exactly to the market. We should then have a static world, and Boehm-Bawerk might well become its greatest exponent. But then we should not have capitalism, and it is capitalism Marx set out to analyse, and so well has he done it that we have the whole system as a living picture, not in repose as an abstraction of political economy, but in all its animated reality, and its coarse, crude, contradictory, but defined evolution. Marx points out and *explains* the contradictions. Boehm-Bawerk sees one contradiction, after Engels points it out, and not understanding its explanation, accuses Marxian economics of being contradictory, instead of, as is the fact, the capitalist system.

What, then, becomes of the great contradiction? Unfortunately for Marx-critics there is no contradiction, great or otherwise, on this point in Marxian economics. It would be a contradiction had Marx said that equal amounts of capital with *different* proportions of labour-power *produced* equal surplus-value. But he said the opposite. It is *not* a contradiction that equal capitals, whatever their composition, *receive* equal profits. But the difference between *produce* and *receive* is not known to our critic, or, being known, is ignored as a quibble. Whereas the difference between the two is that between production and circulation, and surely the veriest tyro will see that that is of some importance for a political economist who desires a reputation for scientific method.

A Poser for the Critic.—Suppose now, for a change, Boehm-Bawerk were asked: "Sir, we have studied your criticism diligently, and it seems that the only thing you believe in is the average rate of profit. How, then, is this average rate of profit formed?" Asking him for the bread of knowledge he would in return, with a shake of the head, give the tram-ticket of marginal utility. He could do no better than chant in discordant

chorus with his brethren :—" We are the professors of the science called ' dismal ' ; the highest aim of which is to prove that it is not a science. There is nothing left to us but a marginal dose."

THE END.

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