

AN EXAMINATION OF THE MARXIAN THEORY OF SURPLUS VALUE
AS FORMULATED IN VOLUME I OF "CAPITAL"

by

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ABSTRACT

The subject for this report is the Theory of Surplus Value formulated by Karl Marx. While there is nothing new in the study of this part of the Marxian economic system, an approach is employed here that differs considerably from that which is normally encountered.

In most studies of this topic the economics is isolated from the rest of Marx's work, a move that tends to place the theory in a vacuum that could never have existed. The economics of Karl Marx was a reflection of his social philosophy, and to be clearly understood must be considered in relation to it. This report is an attempt to explain the economics of Karl Marx in light of his non-economic values.

The method of gathering data for this report was a simple process of library research. Original research or field study was not possible with relation to this topic. In every case possible an attempt was made to use primary sources in preference to secondary sources, and with few exceptions this was done.

The paper is organized in such a way as to trace out the development of factors which were largely responsible for the ideas and attitudes of Marx in terms of their historical evolution. In this way it is possible to view Marx's work as a further step in a process which had begun long before he appeared.

It is demonstrated in this paper that the Theory of Surplus Value which was proposed by Marx did not represent a radical departure from the economic theory which had been produced before his time. Rather Marx's theory is shown to be the logical culmination of those ideas which preceded him, and the natural response to the situation in which he found himself.

Finally, various criticisms of Marx's theory are presented. Those general critical forms are considered which most closely proceed from the non-economic factors which contributed to Marx's Theory of Surplus Value.

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INTRODUCTION

The economics of Karl Marx has been studied from many different angles. But the one aspect which is least often given adequate consideration is the situation within which his work was produced. Those who study Marx as an economist tend to ignore Marx the social reformer. Those who see Marx as the messiah of the working classes are lax in their study of his economic writings.

The purpose of this paper is to demonstrate that Marx's work, in particular, his theory of Surplus Value as formulated in volume I of "Capital", was very closely related to his environment.

With this in mind, two factors have been selected as the subject of particular study in this report. These two factors are the social and economic history of the times in which Marx lived and the development of value theory up to the time of Karl Marx. The history of the times is important because much of Marx's writings reflect his feelings toward the social conditions of his day. The development of value theory is important because through its study we are able to understand how Marx arrived at his conclusions.

This topic is one which has been too often neglected in the study of Marxian economics. Those who study Marx have isolated various facets of his work, not realizing that they should not be separated. By removing from the writings of Marx those factors which influenced his work they fail to fully understand his significance. It is because of such neglect that this paper is being written.

It is necessary to point out here the limitations of this report. Only one aspect of Marxian economics can be examined at this time. In

this paper, it is the study of Marx's Theory of Surplus Value. It is necessary as a part of this study, of course, to discuss other areas of Marxian thought. This is especially true of the Labor Theory of Value which Marx formulates. But in each case these will be studied as they relate to Surplus Value, and no attempt will be made to give them the full consideration they deserve.

This study is divided into four separate areas of emphasis. The first part deals with the socio-economic factors affecting Marx. The second treats of the economic theories influencing him. The third is a study of the Marxian Theory of Surplus Value. The final division concentrates on the basic criticism of the theory.

The first part studies the history of the times in which Marx lived, with emphasis on those aspects which most directly affected the development of his theory. First this paper examines the Industrial Revolution, then studies the effects of industrialization on the working classes of the day. Next, attention is drawn to the attitudes of the upper classes toward the laboring classes during this period of history. Finally, these things are related to Karl Marx in an attempt to show how he was influenced by them.

The second part of this paper turns its attention to the labor theory of value in the history of economics. Its beginnings are studied in the writings of Adam Smith. Changes in the labor theory of value formulated by David Ricardo are given attention next, with emphasis on its variation from Smith. Finally, it is shown how Marx came upon this theory, and particular attention is devoted to the final formulation found in the writings of Karl Marx.

The third part of the paper is devoted to the study of the Theory of

Surplus Value itself. This is done by developing first the Marxian concept of labor-power. Then the concept of exploitation can be illustrated and the source and nature of surplus value explained. Finally, the Marxian concept of the rate of surplus value, or the rate of exploitation, is examined.

The final part of this report deals with the criticisms of the Theory of Surplus Value. These criticisms are divided into two sections. First are those which are associated with the labor theory of value. These are studied with any eye to their effect on the Theory of Surplus Value. Following this is a criticism of the methodology of Karl Marx.

The method used in preparing this paper involved the use of published sources as found in the Kansas State University library. No original research or field study was attempted as the availability of necessary facilities for such activity makes this impossible.

In every possible area an attempt was made to use primary sources rather than secondary sources for this study. Most of the time the necessary sources were available. In one or two cases, however, the needed sources were not available. When this did occur, an effort was made to procure as many secondary sources as could be found. In this way the accuracy of these works could be checked against one another.

The major source for this paper was, of course, the writings of Karl Marx himself. This constituted only volume I of his economic treatise, "Capital", though Surplus Value is discussed in volumes I and III. The reason for this is that problems are associated with the use of both volumes that are beyond the scope of this paper. Certain refinements and changes were made in volume III which would only serve to complicate the study of Marxian theory from the perspective of this paper.

With these Ideas established, it is time to turn to the second chapter of this report, a study of the social and economic history of the times which Marx knew.

SOCIO-ECONOMIC FACTORS INFLUENTIAL IN THE DEVELOPMENT OF
MARX'S THEORY OF SURPLUS VALUE

To evaluate the Marxian theory of surplus value requires more than the study of his economic theories as they are presented in his great work, "Capital". The development of Marx's economic theory did not occur spontaneously. The theory and the conditions which led to its development were part of an economic evolution, a gradual process which began more than a century before Karl Marx began to produce his economic tracts.

It is for this reason that this paper begins the study of the Theory of Surplus Value in Marxian economics, not with a history of Karl Marx himself, but with an economic and social history of the Industrial Revolution. It was in the condition of the world Marx knew that his theory was grounded, and only through an understanding of the economic and social history of the Industrial Revolution can Marx's theory be seen in its full perspective. For this theory, though usually associated with Karl Marx, it is not peculiar to his economic system. Other economists had adopted similar theories, ones substantially the same as that of Marx. Surplus value theory was a product of the times as much as a product of the man.

To give a date for the beginning of the Industrial Revolution is impossible. The Industrial Revolution was not initiated with some single event, but was rather a series of interrelated events, each of which added to the forces of change, and each of which in turn made the way easier for more and greater changes.¹

¹P.T. Ellsworth, The International Economy (New York: The Macmillan Company, 1964), pp. 48-49.

The Industrial Revolution began with the development of mechanical instruments which could do work previously done by hand better, faster, and less expensively. This period and its socio-economic results can be best illustrated by the changes which took place in the English cotton industry. Established as early as 1600, it was operated as a household industry just as was its older rival, the English woolen industry. It was allowed to grow without opposition; the Indian cotton fabrics, which had found a certain degree of favor, were prohibited within Great Britain. But soon the demand for the products of this industry was greater than the ability of the cotton workers to supply them.²

It was in response to the need for methods which would increase the productive capabilities of the industry that the new inventions appeared. The first was but a simple improvement in the loom. Where previously it was impossible for any worker to make a piece of cloth wider than the length of his arms, John Kay solved this problem in 1733 with the development of the flying shuttle. Fitted with wheels and propelled mechanically, this shuttle allowed a person to produce cloths in widths much greater than was previously possible.³

Though by itself the flying shuttle did not represent an extraordinary advance in the weaving industry, it did upset its balance. Where five or six spinners had been able to supply the weaver with thread for his work, it now became impossible for the spinners to produce all the thread demanded by the weavers. The need for some improvement in the spinning branch of the industry

² Ibid, p. 49.

³ F. Stuart Chapin, An Historical Introduction to Social Economy (New York: The Century Company, 1917), pp. 173-174.

became acute, and The Society for Encouragement of Arts and Manufacturers offered a prize to the man who would come up with an invention to alleviate this imbalance.⁴

There followed, then, not one, but three inventions which answered the problems of the spinners. Between 1769 and 1779 the cotton industry was greeted with Hargreaves' spinning Jenny, Arkwrights' water frame, and Crompton's mule. First, the spinning Jenny made it possible for one man to turn out several threads of high quality. Then Arkwright's water frame appeared, producing a coarser, but stronger thread, which could be spun by power-driven machinery. Finally Crompton's mule appeared, incorporating the principles of both fine and strong. In a short time it came to be fitted with as many as three or four hundred spindles, so that one machine could do the work of many individual spinners.⁵

Shortly after this another invention greeted the cotton industry. In America, Eli Whitney perfected his cotton gin, a device which would quickly and efficiently remove the cotton seeds from the cotton fibers, a task previously performed by hand and requiring great amounts of time. This invention provided the English cotton industry with all the raw materials needed for its expanding production.⁶

By 1790 the cotton industry was again out of balance. All the previous efforts to bring the spinning branch up to meet the needs of the weavers had been extraordinarily successful, so much so, in fact, that now the weavers lagged behind the ability of the spinners to provide them with the thread for

⁴ *Ibid*, p. 174.

⁵ *Ibid*, pp. 174-175.

⁶ Ellsworth, *op. cit.*, p. 50.

their work. This led to the invention of the power loom by a country parson named Cartwright. Though this invention caught on slowly, by 1810 it was widely used in England and within a few years after that was the universal tool of the weavers.⁷

This was the pattern that marked industrialization everywhere. But, while increasing the ability of manufacturers to produce quality goods in great quantities and at reasonable prices, the Industrial Revolution at the same time upset the social system in every country it reached. Where manufacture had previously been based on the methods of domestic industry, where the individual worker performed his duties in his own home or cottage, it was now impossible for the working man to afford the elaborate and expensive equipment used in industry.⁸

Mass production and the production savings promised by the new machines introduced in manufacture by the Industrial Revolution demanded a new system for production. Thus came the growth of factories and the birth of what has come to be known as the factory system. Because the new equipment which industry had found was out of the reach of the working man, and because the specialized nature of much of the machinery made it an economic necessity that many operations within an industry be performed together, huge factories appeared. This required large numbers of laborers to observe fixed working hours under the control of their employers, and in building where the machinery was located.⁹

⁷ Ibid.

⁸ Chaplin, op. cit., pp. 177-178.

⁹ Edward P. Cheyney, An Introduction to the Industrial and Social History of England (New York: The Macmillan Company, 1920), p. 183.

This new system did not take over immediately, of course. The factory system supplanted the old cottage industry, or domestic system, gradually over a period of decades. Slowly but surely one industry after another adopted this new production system. What is important, however, is not the time involved, but the inevitability of the change.¹⁰

In less than a century, men who earned their livings by making things ceased to work in their homes, at hours that they set themselves, and with their own tools. Instead, they entered the factory gates at an hour decided by their employers, stood before expensive industrial equipment in which they had no share of the ownership, and worked for a determined length of time at a pace set by a machine.¹¹

The first and most notable change brought about by the emergence of the factory system was the growth of new cities. In a matter of only a few years great population shifts occurred as people moved out of rural areas and into new urban settlements. Everywhere that industry grew up, the population moved in, huddling beside the factories that would employ them. And living under conditions unimaginable today, the state of the working people deteriorated.¹²

The conditions which people faced in the factories were unbelievable. The first factories were hastily constructed, containing very inadequate provisions for lighting, ventilation, and sanitation. Factories became hotbeds of disease and illness. There were no arrangements to provide for the preservation of health, comfort, or decency among the men and women who worked

¹⁰Ellsworth, op. cit., p. 53.

¹¹ibid.

¹²Eugene O. Golob, The "Isms" (New York: Harper and Row, 1954), p.15.

twelve, thirteen, or even fourteen hours a day in the places. And as for the children, they slept by turns in filthy beds. As one group of children was sent into sleep, another was driven from the beds and back to the machines to work their shift.¹³

The fate of children forced to work in the factories was often tragic. In 1828, an article published in a radical English magazine of the times exposed some of the horrors of the factory labor system. This magazine, "The Lion", told the story of eighty pauper children who were shipped off at the age of ten to work in the factories. They were whipped night and day, not just as punishment for some fault, but to stimulate their work. At one factory, children scrambled with the pigs for their daily food, they were hit, kicked and sexually abused. At another factory, the supervisor had the sadistic habit of pinching the ears of the children till his fingernails met through the flesh. And, in many of the factories of the day, the practice was to file down the teeth of the children, apparently to prevent them from biting their masters.¹⁴

The shameful conditions of the factories were closely matched by the living conditions of the common laboring man. Food was extremely scarce. Seldom did a man have meat for any of his meals, and even the bread and potatoes which comprised the main part of his diet were of very poor quality. In many instances actual starvation was prevented only by extensive charity, and a harsh and meager existence was all that anyone could hope for.¹⁵

¹³ChapIn, op. cit., pp. 187-188.

¹⁴Robert Helibrone, The Worldly Philosophers (New York: Simon and Schuster, 1953), pp. 96-97.

¹⁵Cheyney, op. cit., p. 49.

One of the most extensive works on the state of the working man after the beginning of the Industrial Revolution appeared in 1845. Written by a 24 year old German named Frederick Engels, it was entitled "The Condition of the Working Class in England In 1844", and it depicted how those in the lower classes in England were forced to exist. Engels described in great detail the conditions under which they lived and worked. It is perhaps the best stated in his own words as he summarizes the conditions in the great towns of England.

"The great towns are chiefly inhabited by working people, since the best case there is one bourgeois for two workers, often for three, here and there for four; these workers have no property whatsoever of their own, and live wholly upon wages, which usually go from hand to mouth. Society, composed wholly of atoms, does not trouble itself about them; leaves them to care for themselves and their families, yet supplies them no means of doing this in an efficient and permanent manner. Every working-man, even the best, is therefore constantly exposed to loss of work and food, that is to death by starvation, and many perish in this way. The dwellings of the workers are everywhere badly planned, badly built, and kept in the worst condition, badly ventilated, damp, and unwholesome. The inhabitants are confined to the smallest possible space, and at least one family usually sleeps in each room. The interior arrangement of the dwellings is poverty-stricken in various degrees, down to the utter absence of even the most necessary furniture. The clothing of the workers, too, is generally scanty, and that of great multitudes is in rags. The food is, in general, bad; often almost unfit for use, and in many cases at least at times, insufficient in quantity, so that, in extreme cases, death by starvation results."¹⁶

The real shame of this situation was not just that it did exist, but rather that it was the rule, not the exception. The poverty-stricken life was not that of the poorest, most unfortunate, and most improvident of the cities, but was a characteristic of the great body of the laboring population. Only a few fortunate workers were able to rise above it. Moreover, the working

¹⁶ Frederick Engels, The Condition of the Working Class in England in 1844 (London: Allen and Company, 1892), pp. 73-74.

classes spent their lives without any education, without any share in their government, and without any opportunity for enjoyment except that of the lowest kind. The laissez-faire philosophy of the times opened the door for much irresponsibility. At best the workers faced mismanagement, neglect, lack of sympathy, and a sense of utter helplessness in the face of intolerably bad conditions; at worst there was much injustice and hardness.¹⁷

While the state of the working class following the Industrial Revolution was deplorable, that was but one factor which attracted Marx's concern. Despite the shameful conditions that existed, there would have been little reason for the anti-capitalistic philosophy of Karl Marx had the new economic system attempted to treat the ills which it had created. But instead the new capitalists only contributed to the worsening of conditions, then directed the blame for such troubles on the poor themselves.

Marx was most negatively affected in this regard by the writings of Thomas Robert Malthus, a parson in the Church of England, and one of the early economic writers. Malthus had read a book published in 1793 by a minister and pamphleteer, William Godwin, which gave promise of a beautiful new world to come, a world without crime, war, or disease. But he saw a barrier existing between what society would like to be able to accomplish and what it was in fact capable of doing.¹⁸

Thus, in response to this utopian picture Malthus published what was to become his most famous work, "An Essay on the Principle of Population". Here he states the reason why he believes this beautiful world is beyond man's reach. His main argument was simple, but sensational.

¹⁷ Cheyney, op. cit., pp. 225-226.

¹⁸ Hellbroner, op. cit., p. 69.

"But as, by that law of our nature which makes food necessary to the life of man, population can never actually increase beyond the lowest nourishment capable of supporting it."¹⁹

".....it must be evident to those who have the slightest acquaintance with agricultural subjects, that in proportion as cultivation is extended, the additions that could yearly be made to the former average produce must be gradually and regularly diminishing."²⁰

"That population has this constant tendency to increase beyond the means of subsistence.....will sufficiently appear from a review of the states of society in which man has existed."²¹

".....the human species would increase as the numbers 1, 2, 4, 8, 16, 32, 64, 128, 256, and subsistence as 1, 2, 3, 4, 5, 6, 7, 8, 9."²²

The basic theory of Malthus is seen in the above quotes from his work. The human species has the power to reproduce itself beyond the ability of the world to support it. For Malthus the natural laws of population and production were unequal, and thus the perfectability of society would be blocked by insurmountable obstacles of a social system unable to even maintain its present level of existence due to the stresses applied by an expanding population.²³

Malthus did not stop with just a discussion of the problem, but went on in his treatise to study what he considers to be the factor which has caused society to reach its deplorable state. And while his statement of the problem was termed sensational, his analysis can only be described as more so. These ideas earned him the hate of the English working classes.

¹⁹Thomas Malthus, An Essay on the Principle of Population (London: Ward, Lock and Company, 1890), p. 3.

²⁰Ibid, p. 6.

²¹Ibid, p. 3.

²²Ibid, p. 7.

²³Ronald L. Meek, Marx and Engels on Malthus (London: Lawrence and Wishart, 1953), p. 12.

"....but there is one right which man has generally been thought to possess, which I am confident he neither does nor can possess--a right to subsistence when his labour will not fairly purchase it. Our laws indeed say that he has this right and bind the society to furnish employment and food to those who cannot get them in the regular market; but in doing so they attempt to reverse the laws of nature; and it is in consequence to be expected, not only that they should fail in their object, but that the poor who were intended to be benefited should suffer most cruelly from the inhuman deceit thus practised upon them."²⁴

"Misery in all its various forms must be the predominant check to their increase. Poor-laws indeed, will always tend to aggravate the evil, by diminishing the general resources of the country; and in such a state of things can exist only for a very short time; but with or without them, no stretch of human ingenuity and exertion can rescue the people from the most extreme poverty and wretchedness."²⁵

Malthus saw clearly that the economic system then in existence was not adequate to support all the population. From this fact he drew the conclusion that the blame for this condition lay in the people themselves. For Malthus, poverty can only beget poverty; thus it is the poor themselves, through the generation of human life, who are responsible for their situation. This was the basis of his opposition to the Poor Laws. He saw these laws as merely encouraging the procreation of more children, thus in the long run adding to the problem rather than remedying it. What Malthus was proposing, then, was a social order comparable to Darwin's law of the survival of the fittest. Those men best suited to fare for themselves would retain a place in society, while those not so well suited would slowly move to extinction.²⁶

²⁴ Malthus, op.cit., pp. 476-477.

²⁵ Ibid., p. 493.

²⁶ Eduard Heimann, History of Economic Doctrines: An Introduction to Economic Theory (New York: Oxford University Press, 1953), p. 89.

While Malthus was trying to show the poor that the only way out of their misery was through their own efforts, it is also undeniable that he was, at the same time, trying to exculpate capitalism. Much abuse had been aimed at the capitalistic system, and much sentiment in the time of Malthus favored the principles of the French Revolution. By focusing the blame on the poorer classes, he was at the same time removing the blame from the economic system.²⁷

It was against just such a theory that Marx rebelled. Interested in the world of economics and politics since he first came into contact with them while editing a German journal of the day, he soon began to concern himself with the social problems of the day. Decrying the Malthusian doctrine, Marx argued that the fault for the social conditions that had followed with the Industrial Revolution lay not in the society, as Malthus had theorized, but in the economic system.²⁸

It is this premise, that the economic system was responsible for the condition of the laboring classes, which leads inevitably to Marx's economics. The framework for the economic doctrines of Karl Marx is found early in his writings, and is nowhere clearer than in his famous treatise, "The Communist Manifesto", which he co-authored with Frederick Engels. In his own words, this is how he viewed the situation.²⁹

²⁷ Ibid.

²⁸ Raymond Postgate, Karl Marx (London: H. Hamilton Company, 1933), pp. 12-13.

²⁹ George Halm, Economic Systems; A Comparative Analysis (New York: Holt, Rinehart, and Winston, 1951), p. 118.

"In proportion as the bourgeoisie, that is to say capital, has developed, in the same proportion has the proletariat developed--the modern working class, the class of those who can only live so long as their work increases capital. These workers, who are forced to sell themselves piecemeal, are a commodity like any other article of commerce, and are consequently exposed to all the vicissitudes of competition and to all the fluctuation of the market."³⁰

"Does wage labour create property for the proletarianised worker? Not at all. It creates capital; and capital is the property which exploits wage labour, the property which can multiply itself--provided always that it produces a fresh supply of wage labour."³¹

These quotations then demonstrate the basic Marxian theory, the exploitation of the worker by the capitalistic system. And we find it here long before Marx began work on his great economic treatise, "Capital", which would not appear for twenty years. Like many others throughout history, Marx had arrived at his conclusions long before he sat down to demonstrate his beliefs.³²

³⁰Karl Marx and Frederick Engels, The Communist Manifesto (New York: Russell and Russell, 1963), p. 34.

³¹Ibid., p. 44.

³²Halm, loc. cit.

ECONOMIC THEORY AND ITS INFLUENCE ON MARX

Having examined the social and economic factors which contributed to the formulation of Marx's Theory of Surplus Value, it's time to turn from the environmental influences to the Ideological, and take a look at the foundation of the theory itself. Again, it is easiest to understand this subject if we treat it in terms of its historical development. As was stated earlier, Marx's theory cannot be fully appreciated except within its historical frame of reference.

The subject for this chapter, and the foundation for the entire Marxian economic system, is the labor theory of value. Upon this idea is based every major tenet treated in "Capital", and, unless this is first understood, the entire economics is meaningless.

The labor theory of value has its roots far deeper in history than the writings of Karl Marx. Its beginnings can be traced back to Adam Smith, whose writings represent the first mature works in the field of economics. In what is considered to be the first of the classical works, "The Wealth of Nations", he treats of value theory, and makes specific reference to the labor theory of value.¹

Adam Smith at first had difficulty formulating a theory of value, and considered several different ideas. The first which he treated, though only briefly, was the utility theory of value. Here he brings forth the familiar argument about water and diamonds. Surely, he reasoned, the utility of water is greater than the utility of diamonds, yet water can be had for nothing,

¹Eduard Helmann, History of Economic Doctrines; An Introduction to Economic Theory (New York: Oxford University Press, 1953), p. 63.

and diamonds are very precious. Not realizing the full implications of utility value, Smith discards this theory.²

Instead of use value he turns to the exchange value concept. But here is where Smith's economic system becomes quite confusing. In formulating his value theory in terms of exchange value, he actually develops two theories which are at times found on the very same page. These are the labor-cost theory and the labor-command theory. The labor-cost theory states that the value of any commodity is determined according to the quantity of labor units required for its production, while the labor-command theory declares that the value of any good is determined by the quantity of labor which can be purchased by it.³

The labor-cost theory described in the following quotations is from "The Wealth of Nations".

"The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it."⁴

"At all times and places that is dear which it is difficult to come at, or which costs much labor to acquire; and that cheap which is to be had easily or with very little labour."⁵

That money or those goods.....contain the value of a certain quantity of labour which we exchange for what is supposed, at the time to contain the value of an equal quantity.⁶

²Robert Lekachman, A History of Economic Ideas (New York: Harper and Brothers, 1957), p. 90.

³Paul H. Douglas, Adam Smith (Chicago: The University of Chicago Press, 1928), p. 88.

⁴Adam Smith, The Wealth of Nations, Vol. I. (London: J. M. Dent and Sons Limited, 1957), p. 26.

⁵ibid, p. 29.

⁶ibid, p. 26.

"It is natural that what is usually the produce of two days' or two hours' labour should be worth double of what is usually the produce of one day's or one hour's labour."⁷

With regard to the labor-command theory of value Smith makes the following observations.

"The value of any commodity therefore, to the person who possesses it, and who means not to use it or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command."⁸

".....Its value, to those who possess it, and want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command."⁹

Exactly how is Smith's value theory to be interpreted? Despite the confusing nature of his writings, and the way that he mixes different theories together in his writings, it would seem safe to say that the value of any commodity, for Smith, could be measured by the amount of labor which it would command on the market. A commodity acquires value because, but not necessarily to the extent that, it is the product of labor. The real "measure" of the value of a manufactured good could be determined by referring to the actual "power of purchasing other goods" which it possessed.¹⁰

But, though Smith meant for his labor-command theory to be his theory of value, he never clearly fixed the relationship of the two exchange value

⁷ Ibid, pp. 41-42.

⁸ Ibid, pp. 26.

⁹ Ibid.

¹⁰ Ronald L. Meek, Studies in the Labour Theory of Value (London: Lawrence and Wishart, 1956), p. 63.

concepts. His intermixing of the two differing theories in his work left many people somewhat bewildered, and many could not completely understand the relationship of the two.¹¹

One conclusion which was reached by Smith was that there was some definite relationship between the quantity of labor embodied in a commodity and the value of the commodity in society. It was this conclusion which David Ricardo adopted and developed.¹²

Ricardo, in his theory of value, started from the same point as had Adam Smith. Prefacing his most famous work, "Principles of Political Economy", Ricardo states that the main purpose of such work is to determine the laws which regulate the distribution of rent, profit, and wages to the different classes of society. Thus, he begins to study the exchange value of goods.¹³

After discounting the utility concept of value as a measure of exchange value, though Ricardo admits that it is absolutely essential to it, he makes a statement destined to influence economic theorists for generations: "Possessing utility", Ricardo writes, "commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labor required to obtain them."¹⁴

But for Ricardo the value of a commodity was derived from its scarcity only in the exceptional case. Old wines or rare books and coins of course,

¹¹ ibid., p. 81.

¹² ibid.

¹³ George N. Halm, Economic Systems; A Comparative Analysis (New York: Holt, Rinehart, and Winston, 1951), p. 121.

¹⁴ ibid.

had greater value than the labor which they embodied, but the ordinary goods produced by society were not subject to such scarcity. He reasoned that society would produce whatever quantity of good was demanded, thus disallowing any possible shortages.¹⁵

It is very interesting that Ricardo was able to maintain that commodities are exchanged according to embodied labor alone, for he recognized three factors of production; land, labor, and capital. Yet, in the development of his theory, he was able to reduce exchange value to the value of human labor expended on a commodity. This is how it was done.¹⁶

First Ricardo examined the problem of rent, that is the land factor. He theorized that the price of a commodity was determined on the basis of marginal land, which is free. Those on better than marginal land pay a rent, of course, but this rent is determined by the market price of the commodity, the market price of the commodity is not determined by the rent.¹⁷

Ricardo was able to exclude the influence of the capital factor. He assumes away this problem with the idea that the ratio of capital to labor is a constant proportion. It is admittedly a highly curious assumption, but one that is necessary if the labor theory of value is to stand.¹⁸

It is now obvious that the only factor which remains is labor, and in this way Ricardo arrived at his labor theory of value. With rent determined by the market price, and capital always in fixed proportion to labor,

¹⁵ ibid.

¹⁶ ibid.

¹⁷ ibid., p. 122.

¹⁸ ibid.

exchange value must be based on the amount of labor embodied in the commodity.¹⁹

It is important to note, however, that nowhere does Ricardo state that the value of commodities was equal only to the labor value embodied in them. He stated the opposite many times. Ricardo believed that every commodity to some degree or other possessed some value from each of the three named factors, land, labor and capital. But the point that he was trying to make was that the exchange value was in direct proportion to the embodied labor. That is, any commodity will be traded on the market for any other commodity or commodities with an equal amount of labor value.²⁰

Ricardo's theory of value was, as can be easily seen from the basic theories just examined, extremely weak, and it is not surprising that the labor theory of value was generally rejected after the death of Ricardo. But it was not totally forgotten or completely disavowed. It was picked up by many social reformers of the day who, espousing the cause of the working class, reinterpreted it to mean that labor produces all, and all value comes from embodied labor in a commodity. With this basic theory behind them, they campaigned for better treatment of the working man. The labor theory of value soon came to be considered not only logically incorrect, but also socially dangerous. Many critics of Ricardo seemed more concerned with the social danger of the theory than its falsity.²¹

¹⁹ ibid.

²⁰ Mark Blaug, Ricardian Economics (New Haven: Yale University Press, 1958), p. 116.

²¹ ibid., pp. 123-124.

The labor theory of value came to be nearly a universal tenet in the works of social reformers and socialists following the death of Ricardo. It is only natural then that this theory should be picked up by Marx who was steeped in the socialist literature of the day. Karl Marx became a student of Ricardian economics, and on numerous occasions in his writings Marx acknowledges the debt which he owes to Ricardo.²²

Like Ricardo in his "Principles of Political Economy", Karl Marx begins "Capital", his economic treatise, with a discussion of the nature of commodities. Here Marx develops a definition which is appropriate to his labor theory of value.²³

"A thing can be a use-value, without having value. This is the case whenever its utility to man is not due to labour. Such are air, virgin soil, natural meadows, &c. A thing can be useful, and the product of human labour, without being a commodity. Whoever directly satisfies his wants with the produce of his own labour, creates, indeed use-values, but not commodities. In order to produce the latter, he must not only produce use-values, but use-values for others, social use-values. Lastly, nothing can have value, with being an object of utility. If the thing is useless, so is the labour contained in it; the labour does not count as labour, and therefore contains no value."²⁴

For Marx, a good to be considered a commodity must have utility, be the product of human labor, and be produced for the market. Any item which fails to fulfill one of these conditions is not a commodity.²⁵

²²A. James Gregor, A Survey of Marxism (New York: Random House, 1965), p. 149.

²³Halm, op. cit., p. 123.

²⁴Karl Marx, Capital, Vol. I. (Chicago: Charles H. Kerr and Company, 1906), pp. 47-48.

²⁵Halm, loc. cit.

Then Marx studies the exchange value of commodities. Using his definition of commodities, he reasons that exchange value must be based on either the use value or the labor embodied in the product. At first sight it would seem that exchange value is the quantitative relation in which the use values of commodities are traded. But this is not so. Because a commodity may be exchanged for a wide variety of other commodities, the exchange value must express something equal in both. But, because commodities are of differing qualities, the exchange value of a good cannot possibly contain its use values. If we leave out use values commodities have only one common property, they are products of human labor.²⁶

In order to understand exchange in the Marxian system, we must see how he uses the labor theory value. It has been demonstrated that Marx adopted and developed the labor theory of value as the basis for his economic system. In order to establish the precise relationship between labor value and exchange, he developed the concept which is referred to as socially necessary labor time. In the exchange process, while the basis of exchange is the labor value which is embodied in the commodity, only the socially necessary labor may be counted. To find the socially necessary labor time for an article four things must be considered.²⁷

First, socially necessary labor time is that spent by the laborer possessing average skill and working with average intensity. All labor, both skilled and unskilled, must be adjusted so as to be expressed in terms

²⁶Robert Freedman (ed.), Marx on Economics (New York: Harcourt, Brace and Company, 1961), pp. 47-48.

²⁷Halm, op. cit., p. 126.

of average labor. Intensity must also be computed, the more efficient laborer being more valuable than his inefficient counterpart.²⁸

The second consideration is the conditions of production. The socially necessary labor time is no more than that which is necessary under present conditions. If a spindle for some machine need only be made of steel, its replacement with a spindle made of gold can make no change in the value of the labor. Since only a steel spindle is necessary, only the labor needed to produce the steel spindle is counted. Also, normal conditions of production assumes the use of the most efficient machines available. If a less efficient machine would be used, requiring greater amounts of labor, the extra labor necessary with this machine would be unnecessary, and hence would add no value.²⁹

The next point Marx makes refers to the demand for a commodity. For there to be socially necessary labor time there must be a demand for the product created. If no demand exists for this particular commodity, the labor put into its production has been wasted and unnecessary, and hence adds no value.³⁰

Finally, labor time to be counted as value includes both past and present labor time. Present labor, of course, consists of that spent in the production or finishing of a product. Past labor refers to that which is embodied in the "wasted" or "used-up" portion of the machinery employed in producing the commodity.³¹

²⁸ Ibid.

²⁹ Ibid., pp. 126-127.

³⁰ Ibid., p. 127.

³¹ Ibid.

The development of the Labor Theory of Value from Adam Smith to Karl Marx can now be seen quite clearly. While Smith formulated a labor-cost theory of value, he found it inferior to the labor-command theory. A commodity had value because, but not necessarily to the extent that, it contained human labor. Ricardo carried this idea one step further. Labor value in Ricardian economics, is a measure of the exchange value of various commodities, the exchange value being proportional to the amount of embodied labor. The labor theory of value was altered once more by Marx. In "Capital" the exchange value is the same as the value of the socially necessary labor time embodied in the commodity, there being no other value in exchange value. With this theory Marx has laid the foundation for his Theory of Surplus Value.

THE THEORY OF SURPLUS VALUE

Now that the background for Marxian economic thought has been established, it is time to turn to the core of Marx's work, the Theory of Surplus Value. This is the center of the economics of Karl Marx, and the idea upon which all the other economic doctrines must stand.

In the examination of this theory it is important to keep in mind those factors which have been named and studied in the previous pages. Marx was a product of his times, and his theory should be studied with this in mind. As the various ideas are considered in this chapter an effort will be made, wherever appropriate, to consider them in relation to the events or ideas upon which they are founded.

Two sets of circumstances have already been established which laid the groundwork for the thoughts of Karl Marx. The first of these was the socio-economic history of the century before Marx. This period pointed up the plight of the working man in the developing capitalistic society. The second was the growth of the labor theory of value, and how it came to be adopted by the social revolutionaries of the times. We also observed how these factors influenced Marx. Now it is time to show how these two were combined in the production of "Capital".

The study of Surplus Value begins with an examination of a unique feature of the capitalist system with regard to exchange of commodities on the market. In writing of the ordinary process of commodity exchange, Marx provides us with an example of trade. The owner of a commodity, in this case linen, goes to the market. He has twenty yards of this linen, for which he is offered a price of \$2. He exchanges the linen for the \$2, and then gives up this money in return for a family Bible, which costs him

exactly \$2. Hence he has traded one commodity, linen, for another commodity with the same value, though different utility, the Bible.¹

When goods are exchanged in this manner certain changes in their form take place. Commodities are converted into money, and the money is converted into some new commodity. Marx expresses this as Commodity--Money--Commodity, or C--M--C. This he recognizes as the ordinary situation of exchange. One good is sold in order that the seller may purchase another good.²

But, upon observing the capitalistic process, Marx identified another form of exchange, which he designates as M--C--M, that is, money is exchanged for some commodity, and the commodity in turn is exchanged once more for money. In this situation a good is purchased in order that the purchaser may sell it.³

These two processes can now be simplified somewhat. The first case, C--M--C, can be reduced to C--C, one good being exchanged for another. The second situation, which is but a variation on the first, can be reduced from M--C--M to M--M. Here money is exchanged for money. It is understandable that a person would be willing to trade one commodity for another. Different commodities have different utilities, and a person can exchange one good for another of equal value whose utility offers greater satisfaction. But to trade money for money would seem absurd. A person who traded \$100

¹Karl Marx, Capital, Vol. I. (Chicago: Charles H. Kerr and Company, 1906), p. 118.

²ibid, p. 119.

³ibid, p. 164.

for some commodity, and then exchanged the commodity for its value, \$100, would gain nothing from the transaction, and would be risking his money to the dangers of circulation.⁴

But money was being exchanged for money in the capitalistic economic system, and the reason for this was clear. A person might exchange \$100 for some commodity, but when it came time to trade the commodity he would receive more than his original \$100. He would be making a profit, increasing his supply of money. Where the formula previously read $M-C-M$, it now came to be written $M-C-M'$, M' being equal to $M + \Delta M$, the change in M , which Marx sets out to identify. He labels this "surplus value", and sets as his task the study of the nature and source of this value.⁵

The first place where Marx looked for the source of this surplus value is in the process of exchange. He tried to determine whether any action takes place here that contributes to the value of the commodity exchanged. Having adopted the labor theory of value, the socially necessary labor embodied in the production of any good is the true measure of its value. By his own assumptions this is the sole basis of exchange value. No socially necessary labor is embodied in the commodity from the act of exchange.⁶

But, even if this law of exchange were suspended, this will allow no accumulation of value, and will not explain the nature of surplus value.

Marx demonstrates this in "Capital" in Chapter VI.

⁴ ibid, pp. 164-165.

⁵ ibid, p. 168.

⁶ ibid, p. 179.

"Suppose then, that by some inexplicable privilege, the seller is enabled to sell his commodities above their value, what is worth 100 for 110, in which case the price is nominally raised 10%. The seller therefore pockets a surplus value of 10. But after he has sold he becomes a buyer. A third owner of commodities comes to him now as seller, who in the capacity also enjoys the privilege of selling his commodities 10% too dear. Our friend gained 10 as a seller only to lose it again as a buyer. The net result is, that all owners of commodities sell their goods to one another at 10% above their value, which comes precisely to the same as if they sold them at their true value."

"Let us make the opposite assumption, that the buyer has the privilege of purchasing commodities under their value. In this case it is no longer necessary to bear in mind that he in his turn will become a seller. He was so before he became buyer; he had already lost 10% in selling before he gained 10% as buyer. Everything is just as it was."⁷

If exchange were not the source of surplus value, then where could the formation of surplus value be found? To locate surplus value Marx found it necessary to assume the existence of a unique commodity, one already implied in his works, which alone was capable of creating value. This commodity he labeled labor-power.⁸

Marx defines labor power in the following manner.

"By labour-power or capacity for labour is to be understood the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description."⁹

The unique feature of labor power is the fact that it is a commodity much like other commodities, and as such can be bought and sold on the market. The value of this labor-power is determined in the same manner as

⁷ ibid.

⁸ Robert Lekachman, A History of Economic Ideas (New York: Harper and Brothers, 1957), p. 214.

⁹ Marx, op. cit., p. 186.

that of all other commodities, by the labor-time necessary for its reproduction. In other words, the value of labor-power is equal to the value of the means of subsistence necessary for the maintenance of the worker. What are these necessary means? Marx lists food, clothing, fuel, housing, and those things necessary to the replacement of the worker, or the worker's children, as the true value of labor-power.¹⁰

Having demonstrated that labor-power is a commodity like all other commodities, the relationship of laborer and employer becomes apparent. Here is but another example of trade, the exchange of one use-value for another. The laborer trades his labor power for the means of subsistence which he requires. Here again like values are traded for unlike utilities. The laborer exchanges the value he adds to the product of the capitalist for an equal value of his subsistence requirements.¹¹

But, for Karl Marx, the exchange of labor-power for the means of subsistence does not exist in reality as it does in theory. It should be remembered that Marx was dedicated to the idea that the working man was being exploited by the capitalists. Even his earliest writings, some of which have been discussed already, leave no doubt as to his explanation of the condition of the working man. Here then Marx sets out to demonstrate how this exploitation takes place.

The working man, says Marx, must put himself on the market for sale like any other commodity. But, because his labor is useless without the

¹⁰George Halm, Economic Systems: A Comparative Analysis (New York: Holt, Rinehart, and Winston, 1951), p. 128.

¹¹Ibid.

industrial goods which are possessed by the capitalists, he is forced to accept whatever terms of trade are offered him. The separation of the labor and capital is inherent in the capitalistic system.

"Capitalist production, therefore, of itself reproduces the separation between labour-power and the means of labour. It thereby reproduces and perpetuates the condition for exploiting the labourer. It incessantly forces him to sell his labour-power in order to live, and enable the capitalist to purchase labour-power in order that he may enrich himself. It is no longer a mere accident, that capitalist and labourer confront each other in the market as buyer and seller. It is the process itself that incessantly hurls back the labourer on to the market as a vendor of his labour-power, and then incessantly converts his own product into a means by which another man can purchase him."¹²

Then, according to Marx, when the laborer places himself and his labor for sale on the market, he is forced by the capitalist to accept for his wages less than their true value. Because he cannot work at all unless for those who own the means of production, he is made to work on their terms, and does not have the power to obtain his just wage.

And the capitalist, because he holds the laborer at a disadvantage, is able to extract from him whatever terms of employment he chooses. Therefore, he offers the working man less for his labor than its real value.

To illustrate this idea, suppose that a man worked twelve hours a day in a factory. During the twelve hours of work he would add, through his particular contribution to the ultimate product, a certain value. The value would be equal to the socially necessary labor time he had expended. This value would be that to which the worker was justly entitled. Following the

¹²Marx, op. cit., pp. 632-633.

ideas of trade, the working man would be given a sum of money equal in value to his labor.¹³

But, when the capitalist purchases the labor-power of the working man on the market, he can command whatever amount of work he desires. Suppose that the laborer can, in six hours, add value to the product he is employed to produce equal to his necessary means of subsistence. Is he then allowed to leave his work and return to his home? No, the capitalist will order that he continue to work for him longer, for instance, for another six hours. The worker will be forced to contribute labor which is double in value to the cost of labor-power.¹⁴

Here is the source of surplus value. In the process of production, this extra value arises. It comes from the exploitation of the working man. While made to work for twelve hours for his employer, he receives in return for his work the value of six hours employment, money to buy his necessary means of subsistence. The value of the other six hours is retained by the capitalist, and pocketed as profit.

Marx also presents a formula whereby surplus value may be measured. First he distinguishes two types of capital.

"The means of production on the one hand, labour-power on the other, are merely the different modes of existence which the value of the original capital assumed when from being money it was transformed into the various factors of the labour-process. That part of capital then, which is represented by the means of production, by the raw material, auxiliary material and the instruments of labour, does not, in the process of production undergo any quantitative alteration of value. I therefore call it the constant part of capital, or more shortly, constant capital.

¹³ ibid, pp. 208-209.

¹⁴ ibid, pp. 209-212.

"On the other hand, that part of capital, represented by labour-power, does, in the process of production, undergo an alteration of value. It both reproduces the equivalent of its own value, and also produces an excess, a surplus-value, which may itself vary, may be more or less according to circumstances. This part of capital is continually being transformed from a constant into a variable magnitude. I therefore call it the variable part of capital, or shortly, variable capital."¹⁵

The formula for capital in the Marxian system would be written as follows: $C = c + v$ where C is equal to total capital, c is equal to the constant capital or machinery, and v is equal to the variable capital, or labor. Under ideal conditions suppose that \$500 in capital is advanced. Assume also that \$410 is expended on machinery while \$90 is spent for labor. The formula would then appear as $\$500 = \$410 + \$90$.¹⁶

But in capitalist society, as was noted earlier, this formula for capital is not applicable. In capitalism, we experience a variation in the capital formula. While it should be supposed that, employing our formula $M--C--M$, we would exchange \$500 (C) for $\$410 + \90 ($c+v$), and this again for \$500, we proved that in fact the formula in capitalistic society is $M--C--M'$, where $M' = M + \Delta M$. This increase in value comes from the exploitation of surplus value from the laborer. The formula for surplus value would then be written as $C' = (c + v) + s$, where s is equal to the surplus value.¹⁷

Here, then, is the explanation for the appearance of M' . \$500 (C) would be traded for $\$410 + \90 ($c+v$) plus \$90 (s), and this total, \$590 (C'), would then be exchanged for money, \$590 (M'). Thus C becomes C' , and the formula

¹⁵ ibid, pp. 232-233.

¹⁶ ibid, p. 235.

¹⁷ ibid.

M--C--M' becomes M--C'--M'. With an investment of only \$90, the capitalist has been able to obtain \$180 of labor value, and the extra \$90 he pockets as profit.¹⁸

Finally, Marx measures the rate of surplus value, or the rate of exploitation. Since the surplus value is, by definition, a product of variable capital, the rate of surplus value must be determined as a relationship between surplus value and variable capital. The formula is surplus value/variable capital equals the rate of surplus value.¹⁹

"The relative quantity produced, or the increase percent of the variable capital, is determined, it is plain, by the ratio of the surplus-value to the variable capital, or is expressed by s/v ."²⁰

In the example which was employed here surplus value was equal to \$90 and variable capital was also equal to \$90. The rate of surplus value would be s/v , or $90/90$. The rate of surplus value, then is 1, or 100%.

Marx's conclusions concerning capitalistic society were to be expected. They were forewarned by his earlier ideas. The concepts of exploitation of the working man the labor theory of value led Marx to these conclusions. In his search for predetermined answers, Marx left his system open to much criticism. It is time to examine some of the criticisms of Marxian economics with respect to the Theory of Surplus Value.

¹⁸ Ibid, pp. 235-236.

¹⁹ Ibid, p. 239.

²⁰ Ibid.

CRITICISMS OF THE THEORY OF SURPLUS VALUE

Now, that the formulation of the Theory of Surplus Value has been examined, it is time to look at the other side of this issue. Criticism is just as essential to an understanding of Marxian economics as the writings of Marx himself. It is important to our study of this problem that we be aware of any weaknesses, deficiencies, and fallacies it may possess. Without such a realization, we cannot assess the place which this idea holds in the history and study of economics.

It is important at this point to make clear the fact that no attempt will be made to study all criticisms of the Marxian theory. That is clearly impossible. Neither will an attempt be made to study all of the major criticisms. Most of these, while somewhat different in content, fall into certain general categories. For this reason only those criticisms which may be considered generally representative of major schools of thought in this field will be treated.

The majority of criticisms of the Theory of Surplus Value fall into the category of objections to the Labor Theory of Value. For that reason the greatest part of this chapter will be concerned with criticisms of that theory. It is easy to see why this should be the case. It is natural to begin criticism at this point, for the labor theory of value is the foundation for the entire Marxian system. In each case this criticism will also be treated so that its effect on the Theory of Surplus Value can also be seen.

The various criticisms leveled at Marx and his value theory can be most conveniently broken into three main categories. First, there is what may be called the pure-Bohm-Bawerkian critique, named after the Austrian economist

whose book, "Karl Marx and the Close of His System", represents one of the major attacks on Marxian theory. Starting from the idea of the marginal utility theory of value it strikes against the labor theory of value. Recognizing that a theory of value must lay at the foundation of any system of economics, this form of criticism argues that Marx has chosen a theory of value which is invalid, and as a consequence the entire system must crumble.¹

The second school is perhaps best represented by Eduard Bernstein, whose name must always be remembered in connection with the Revisionist School of Marxian economics. This type of criticism also recognizes that the labor theory of value which is used by Marx is incorrect, but does not agree that the entire system must be judged incorrect with it. These critics feel that a number of Marx's leading propositions remain true if the marginal utility theory of value is substituted for the Labor Theory of Value.²

The third form of criticism which faces Marx's labor theory of value is the idea that it is a useless addition to the entire economic system he has formulated. These critics try to show that, at best, the labor theory of value makes no statement which must be considered necessary to the system.³

Eugen v. Bohm-Bawerk begins immediately in his critique of the Marxian doctrines with an attack on the labor theory of value. After first affirming the fact that Marx based all values of commodities on the labor embodied

¹Ronald L. Meek, Studies In the Labour Theory of Value (London: Lawrence and Wishart, 1956), p. 203.

²ibid.

³ibid.

in them, and theorizing that by virtue of this law they must exchange on the market in proportion to the amounts of labor they contain, he attacks the logical consequences.⁴

"Now it is certain that the exchange value, that is to say the prices of the commodities as well as the quantities of labour which are necessary for their reproduction, are real, external quantities, which on the whole it is quite possible to determine empirically. Obviously, therefore, Marx ought to have turned to experience for the proof of a proposition the correctness of which must be manifested in the facts of experience; or in other words, he should have given a purely empirical proof. This, however, Marx does not do."⁵

Here we find the first point of criticism which Bohm-Bawerk throws at Marx. Though it would have been quite simple for Marx to have examined the relationship of exchange value to the quantities of labor which they embodied, Marx made no attempt at this. Why does Bohm-Bawerk believe that Marx failed to test this theory? Not because he overlooked it. Rather Bohm-Bawerk believes that it was deliberate on Marx's part. He feels that Marx realized that any such study would prove the error in his theory, and for this reason avoided such a method.⁶

"He knew that the prices of commodities were not in proportion to the amount of incorporated labour, but to the total cost of production, which comprise other elements besides. He did not therefore accidentally overlook this the most natural proof of his proposition, but turned away from it with the full consciousness that upon this road no issue favourable to his theory could be obtained."⁷

⁴Eugen v. Bohm-Bawerk, Karl Marx and the Close of His System (New York: The Macmillan Company, 1898), p. 23.

⁵Ibid, p. 127.

⁶Ibid, pp. 127-128.

⁷Ibid, p. 128.

Bohm-Bawerk then goes on to discount the Marxian idea that, while the exchange process demands that the goods being exchanged be traded on the basis of some common property they possess, this can only be the fact that they are the products of labor.

"Is not the property of being scarce in proportion to demand also common to all exchangeable goods? Or that they are the subjects of demand and supply? Or that they are appropriated? Or that they are natural products? For that they are products of nature, just as they are products of labour, no one asserts more plainly than Marx himself, when he declares in one place that 'commodities are combinations of two elements, natural material and labour.' Or is not the property that they cause expense to their producers--a property to which Marx draws attention in the third volume--common to exchangeable goods?"⁸

If the labor embodied in these goods is not the factor which determines the exchange value of goods, then what should be properly considered the source of value? For Bohm-Bawerk the use value of the good in question would make a fine source of value in a commodity. He even suggests that the logic of the Marxist system would be unhurt if, where use value was eliminated in favor of labor value as the source of value, the tables were turned around, and labor value were eliminated instead.⁹

Bohm-Bawerk's criticism of the Marxian system centers around the idea of the error in the theory's foundation. For Bohm-Bawerk the system can not stand as long as it rests on a doctrine which is incorrect. He states the belief that the Marxian system, and the Theory of Surplus Value, is a "bad harvest, which grew by necessity out of the bad seed."¹⁰

⁸ ibid, pp. 144-145.

⁹ ibid, pp. 147-148.

¹⁰ ibid, pp. 190-191.

The second criticism of the Marxian Labor Theory of Value which has been mentioned is that of the Revisionist school of Marxism. This group, which first was heralded in the writings of Eduard Bernstein, feels that some of what Marx has written is true and valuable, but do not agree with the Labor Theory of Value, or believe that it is necessary to the entire system.

Eduard Bernstein was a close friend and collaborator of Frederick Engels, and was also considered to be an orthodox Marxist. But, soon after the death of Engels, he began to change the basic Marxian doctrine. The Revisionist school which he launched was so called because he saw the wisdom of "revising" Marx to fit better the conditions which he saw around him.¹¹

It was this that led to the publication in 1899, of his book "The Pre-suppositions of Socialism and the Tasks of Social Democracy." Motivated by a dread of violence, a contempt for theory, and a passion for the practical matters of every day life, he proposed a theory which completely opposed the ideas of Marx. In this manner the term Revisionism is indeed a misnomer. His true aim, though he may not have been fully aware of it, was not to revise Marx but to eradicate him. Where Marx pictured socialism as the necessary end to an historical process, Bernstein saw it as the natural culmination of the growth of civilization among the peoples of the world.¹²

To remove the influence of Marx within the socialist movement of that day would have been impossible. Any person who attempted to discredit Marx

¹¹ Paul M. Sweezy, The Theory of Capitalist Development (New York: Monthly Review Press, 1956), p. 192.

¹² ibid, pp. 192-193.

would have found himself out of the movement very quickly. Therefore, instead of replacing Marx, Bernstein attempted to change him, and in this manner to alter the philosophy of the socialists.¹³

Bernstein found the labor theory of value completely untenable because he saw it as a "pur abstract concept" which was inadequate to serve as the basis of exchange ratios. For Bernstein no abstract theory could properly depict the conditions which would be found in the real world. The theory of value will not fit reality because, as an abstract idea, it loses every concrete quality.¹⁴

What then happens to the Theory of Surplus Value in the writings of Bernstein? The fact that the labor theory of value is considered as pure theory means also that the Theory of Surplus Value must fall into this completely abstract category. But, unlike Bohm-Bawerk, Bernstein does not feel that the refutation of the labor theory of value automatically requires the discarding of the Theory of Surplus Value. The Theory of Surplus Value holds a very special place for Bernstein.¹⁵

Bernstein believed that the exploitation of the working man did not require Marxist theories as a proof. It was obvious to any person who would take a look around. The theory of exploitation of the proletariat had a peculiar value. Exploitation was to be measured not in terms of economic values, but in terms of ethical values. Exploitation, for Bernstein, refers

¹³ ibid, p. 193.

¹⁴ Meek, op. cit., p. 212.

¹⁵ ibid, p. 210.

to the relations between men. It refers to the morally objectionable use of one man by another.¹⁶

The last group of critics are those who feel the labor theory of value makes no important contribution to the theories which are propounded in "Capital", and at the very best it can only be considered as a useless appendage. This school of thought is represented by many persons. For the purposes of this study just one will be considered, Joan Robinson.

Mrs. Robinson, typical of the school of thought on Marxian economics that was briefly described earlier in the chapter, believes that the labor theory of value is unimportant in studying Marx. This point of view is stated no more clearly than in her book "An Essay on Marxian Economics".

"I hope that it will become clear, in the following pages, that no point of substance in Marx's argument depends upon the labour theory of value. Voltaire remarked that it is possible to kill a flock of sheep by witchcraft if you give them plenty of arsenic at the same time. The sheep, in this figure, may well stand for the complacent apologists of capitalism; Marx's penetrating insight and bitter hatred of oppression supply the arsenic, while the labour theory of value provides the incantations."¹⁷

For Mrs. Robinson the labor theory of value adds nothing to the theories in Marxian economics, but has a place in the system that she compares to "Incantations". The labor theory of value is an appendage that can best be described as symbolic. It is reducible to nothing more than metaphysical argument. But the theory is not what one should be concerned with. What

¹⁶ Leopold Labedz, (ed.) Revisionism (London: Allen and Unwin, 1962), p. 37.

¹⁷ Joan Robinson, An Essay on Marxian Economics (New York: St. Martin's Press, 1966), p. 22.

is important is that surplus value does in fact exist.¹⁸

"What is important is the total amount of surplus which the capitalist system succeeds in acquiring for the propertied classes, and there is no virtue in dividing that total by the amount of capital, to find the rate of exploitation."¹⁹

Mrs. Robinson feels that there is much for the capitalist economists to learn from the Marxian system of economics. The problem up to here is that both sides have spent so much of their time arguing over the labor theory of value that neither has taken time to find out what the other really has to say. The labor theory of value is not essential to anything that has been said, rather the theories of Marx will stand on their own and should be studied that way.

Other types of criticism of the Marxian system take forms different from those discussed up to the point. While the majority of the critics begin with the labor theory of value, many other arguments have been put forth. There is, of course, not room to discuss all of these. To conclude, here is the one argument which finds more favor than any other.

This argument is probably best stated again by the Austrian economist, Eugen v. Bohm-Bawerk. It refers to the form of the system which Marx created. Many persons feel that Marx so constructed his system to fit his ideas. They criticize the fact that his conclusions were determined long before the system was created and suggest that the system was arranged so that the Marxian thesis could be supported.

¹⁸Joan Robinson, Collected Economic Papers (New York: A.M. Kelley and Company, 1951), p. 13.

¹⁹Joan Robinson, An Essay on Marxian Economics, p. 16.

Here is how this idea is presented by Bohm-Bawerk in "Karl Marx and the Close of His System".

"From the beginning he only puts into the sieve those exchangeable things which contain the property which he desires finally to sift out as 'the common factor', and he leaves all the others outside. He acts as one who urgently desiring to bring a white ball out of an urn takes care to secure this result by putting in white balls only".²⁰

"He knew the result that he wished to obtain, and must obtain, and so he twisted and manipulated the patient ideas and logical premises with admirable skill and subtlety until they actually yielded the desired result in a seemingly respectable syllogistic form."²¹

These are the major criticisms of the economic theory of Marx which he formulated in Volume I of "Capital". These are not all inclusive, but they do give a general picture of Marxian criticism, one that is representative of all the major schools.

Now that the analysis of the Theory of Surplus Value has been completed, it is time to begin the final task of this paper, an analysis of what has been covered, and the import of this theory today. This will be the subject of the concluding chapter.

²⁰Bohm-Bawerk, *op. cit.*, p. 134.

²¹*ibid.*, p. 152.

CONCLUSION

Now it is time to re-examine what has been studied concerning Marx's Theory of Surplus Value. A short review of the major points which have been covered will help to put all the pieces into their proper places, and will make it easier to understand the important relationships.

This report has concerned itself with two aspects of the Theory of Surplus Value. Because it was the purpose of this paper to explore the relationship of the theory to the time in which it was written two trends were discussed. The first of these deals with the growth of the socio-economic conditions which created the need for such a theory. The second dealt with the development of the labor theory of value, which provided the means for the formulation of the Theory of Surplus Value.

First the socio-economic factors should be re-examined. The changes which were to lead to the conditions Marx's theory was designed to explain were the result of the Industrial Revolution. This process of replacing manual labor with machinery led very certainly to the collapse of the social system which had been built around home labor manufacture. The perfection of machinery to do the work previously done by the working class promised great benefits to all, but in fact led to a decline in the conditions of the working people. As factories grew up to produce the goods of industry they created a social problem almost beyond belief.

While production and wealth grew with the improvement in the means of production, the benefits of this were not passed on to those who worked daily in the factories. In fact the lot of the common people became worse than it had been before. The excesses of the factory labor system were deplorable.

Child labor became the rule of the day, not just because children were capable of operating the new machines, but because it was a necessity if they were to live. Crowded into hovels and shacks, forced to live under conditions that can only be called inhuman, the working people were the virtual slaves of those who owned the means of production.

But it was not these facts alone that turned Marx against the capitalistic system. It was also the fact that those who controlled and ran the system showed themselves insensitive to the fate of the laboring classes. Rather than attempt to improve these conditions, they ignored them, and in so doing added new problems to the old. The attitude of many capitalists was clearly expressed by Thomas Malthus in his famous work, "An Essay on the Principle of Population". Here he states the belief that the fault for those conditions which afflicted the working class could be pinned on no one but the working people themselves.

It was against such attitudes and opinions that Marx reacted most violently. He stated early and often that the fault for what could be seen to exist in the industrial world of those times was not that of those who were suffering, but of the system under which they had fallen. In his writings, then, Marx sought to prove that the capitalistic system was by its nature responsible for the situation which exists.

To formulate a theory to explain the problems that industrialization had created Marx needed some theory of value on which to base his critique of capitalism. He found this in the writings of many early economists, the labor theory of value.

The earliest foundation for the labor theory of value of Karl Marx can be found in the writings of Adam Smith. In working to discover the nature

of exchange value in the goods produced by society Smith developed two distinct theories. These were the labor-command theory and the labor-cost theory. The first suggested the value of any commodity was equal to the quantity of labor which it could command on the market. The second suggested that a commodity had value because it contained human labor. Though no distinction was ever completely made between these theories, it seems certain that Adam Smith gave greater credence to the former. While he believed that commodities had value because they embodied human labor, it is certain their value was not to the extent of that embodied labor.

David Ricardo, following Adam Smith, settled on the labor-cost theory of value. He decided that the exchange value of any commodity was determined by the amount of labor which it contained. But he did not believe that labor was the only factor which added value to a good. Rather he felt that value was added by land and capital as well as labor. Labor was most important, however, because the value of the commodity was proportional to the labor which it contained.

After the death of Ricardo the labor theory of value fell into disrepute. The reason for this is twofold. First was the simply logical argument that the theory was not an accurate representation of what was happening in the economic world. But this was less important in its decline than the fact that this theory worked well with the ideas of the social reformers of the day. Any theory which tended to ascribe to the working man the benefits of production was considered socially dangerous.

It was through the socialists that Marx came into contact with this theory. They used this theory in their arguments for better treatment of the working classes, and in some situations to argue that all the return

from production should go to the working man. Steeped in the writings of the French socialists, it was only natural that this theory was adopted by Marx, who then ascribed all value to human labor alone.

With these two factors combining, the hatred which Marx had for the capitalists and the capitalistic system of production, and the labor theory of value as the means of attacking their treatment of the laboring classes, Marx formulated the Theory of Surplus Value.

Marx's explanation of the capitalistic phenomenon of profit was quite simple. He saw this as the result of the exploitation of the working classes. Marx theorized that, while the working man was adding to the value of the goods on which he worked, he was not being paid the full value of his labor. The capitalist, because he controlled the means of production, forced the working man to contribute more to production than he was being paid for. The extra work which was being obtained without reimbursement was named surplus labor, and the value which was added to the product of the capitalist by this surplus labor is known as surplus value.

There is today no single school of thought on Marx's economic theory. Generally speaking the labor theory of value has been discarded, but that has not led inevitably to the discarding of the Theory of Surplus Value. There is much disagreement on this point. Some would throw the entire theory out with the labor theory of value, others would revise the theory and still others feel that the labor theory of value is unimportant.

What would seem to be more important at this point is now, however, whether the majority of economic opinion accepts or rejects the theory, but rather what import it may hold for us today.

Though it is easy to assume that the Marxian Theory of Surplus Value is outdated in this modern age, the spirit of the theory can still be found, not just in the Communist countries, but in this country as well. Where would one find such a theory in the most highly developed capitalist country in the world? Labor unions are the best source for examples of this. While the notion is itself a question suitable for a separate study, a brief illustration would seem in place here.

To demonstrate this I turn to the television interview several years ago of Walter Reuther, one of the acknowledged leaders in American labor. On this occasion, October 17 and 18, 1960, Mr. Reuther, the leader of the United Auto Workers and the second in command in the AFL-CIO, talked with Mike Wallace. The following quotation by Mr. Reuther illustrates the point which I wish to make.

"I think we need now to begin to prepare for a reduction in the work-week....because the tools of production are so productive we can create all the material wealth we need with fewer hours of work."¹

It is easy to see the Marxian overtones of this statement. It fits into Marx's schemes very neatly. The concepts of labor-power and socially necessary labor time are clearly present. And the opinion expressed is one that reflects the Theory of Surplus Value.

The Theory of Surplus Value has now been studied in the manner promised. It is hoped that this report has provided new perspectives of this question, and the nature and form of the problem are more clearly understood.

¹Henry M. Christman, Walter P. Reuther; Selected Papers (New York: The Macmillan Company, 1961), p. 321.

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AS FORMULATED IN VOLUME I OF "CAPITAL"

by

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