

ance labour is the *sole* parent of wealth, this ought to be a considerable aid towards proving that wealth may be attributed entirely to labour'.²⁹

Thompson advocated a world of free and voluntary exchanges as a way of ensuring that workers will earn their product. But what of the *existing* system of exchange? Anticipating Marx, these exchanges were, according to Thompson, coerced, the capitalists 'seizing the products of their labour [of the labourers] by force'. But here, on the edge of Marxism, Thompson retreated into a libertarian class analysis. For what constitutes such coercion? An entire spectrum of 'bounties, protestations, apprenticeships, guilds, corporations, monopolies' – which sounds very much like Comte, Dunoyer, or James Mill.

But Thompson presses on. Rent and profit are, in particular, 'surplus value' (in Thompson's original phrase) extracted from the exploited workers. But then Thompson retreats again from his full vision, conceding that 'the labourer must pay for the use of these [capital goods], when so unfortunate as not to possess them'. So even though Thompson is full of invective against the greedy and rapacious capitalists, he concedes that they perform a necessary function. How much, then, should they be paid? It is not surprising that Thompson floundered in trying to discover such a principle.

Thompson wound up, then, far from a revolutionary; instead, his mild, pre-John Stuart Mill-like solution was to encourage cooperatives as a means of arriving at inter-class harmony (in his *Labor Rewarded*, 1827). But this scarcely exhausted Thompson's heresies as a pre-Marxian. For, being dedicated to free exchange, Thompson sensibly had to admit that from exchange often emerges accumulation, and from accumulation there arises the dread capitalist class. Thus: 'you cannot abridge the exchanges and consequent accumulations of the capitalist without at the same time abridging all barter'. And, further, admitting the serpent of wages and rent back into Eden: 'Why not permit the labourer to exchange for the use of a house, a horse, a machine, as well as for its possession?'³⁰

The other founding father of Ricardian socialism in 1820s, John Gray (1799–1883), was possessed, like Thompson, of a most un-Marxian spirit of moderation. As a young Scottish clerk in a wholesale house in London, Gray published his socialistic *Lectures on Human Happiness* in 1825. An arch-utilitarian, and expounder of the Ricardian labour theory of value, Gray fulminated against capitalists as exploiters of the working class, and, like Marx, saw the seeds of such exploitation in trade or barter. If William Thompson's innovation was the phrase 'surplus value', John Gray's particular contribution to the Marxian brew was to bring back, in a heavy way, the physiocratic-Adam Smith notion of productive *vs* unproductive labour, and thus rescue this flawed concept from Ricardian neglect. Not only that: but Gray narrowed the Smithian standard of productive labour considerably. As Gray put it, '*they only* are productive members of society who apply *their own hands* either to the cultivation of the earth

itself, or to the preparing and appropriating the produce of the earth to the uses of life'. Having narrowed the definition of productive, Gray then began to make curious concessions, admitting, for example, that some occupations may be to some extent 'useful' although 'unproductive'.

John Gray then proceeded happily to run through the list of British occupations, and to allocate in an obviously purely arbitrary way the percentages of 'productivity' or 'usefulness' in each occupation. Thus, Gray contends that merchants, manufacturers and others who are 'mere distributors of wealth', could still be 'useful' but 'only in a *sufficient* number'. Gray concluded that the productive classes were far short of half the total population.

Harking back, perhaps unconsciously, to the ancient Greeks, Gray reserved some of his choicest venom for the retailers, whom he savaged as 'productive' only of 'deception and falsehood, folly and extravagance, slavery of the corporeal, and prostitution of the intellectual faculties of man'.³¹

It turns out that for Gray, the main sin, the crucial evil, is competition. The competition of labour pushes the wages of labour down to a minimum. Standard Marxian fare, no doubt. But, in addition, even though labour is supposedly the sole creator of value, Gray also worries that competition, with equal perniciousness, also keeps to a minimum the amount of profits and rent.³²

John Gray concludes with the general principle that every individual in society, except those living on fixed incomes, finds their incomes limited and ground down by competition.

It turns out that the exploitation of labour, indeed of *everyone*, is engineered by competition itself, which 'limits' production. Put an end to competition, then, and not only will the ideal world arrive where the labourer earns his full product, but also wealth will then be multiplied 'without any known limits'. The world is only impoverished because of competition; eliminate it, and wealth will be abundant for all.³³

Even though Gray maintained that competition could be abolished immediately and with only good effects, he was distressingly vague on how to accomplish this feat. He seemed to favour some sort of all-embracing cooperative, thereby bringing him close to Thompsonian reform. Soon, however, Gray shifted his attention to the 'limitations' on production allegedly imposed by hard money, and so he turned increasingly to a call for accelerating amounts of cheap and easy money.

Thus, in 1831, Gray's book *The Social System* called for cheap and abundant credit to fuel and finance increased production, guided by a governmental national bank. Gray, of course, also advocated irredeemable paper money and the abolition of the gold standard. This analysis was further developed in John Gray's last work, *Lectures on the Nature and Use of Money* (1848).

After 1848, John Gray's social protests ceased completely, and so until recently it was assumed by historians that he had died 'around 1850'. It turns

out, however, that Gray, shortly after the publication of his *Lecture of Human Happiness*, founded with his brother James the famous publishing firm of J. & J. Gray of Edinburgh. As the firm flourished, especially after 1850, Gray settled down to a comfortable existence, and died at a ripe old age of 84 in 1883.

A decade and a half after Thompson and Gray, the third leading Ricardian socialist made his appearance: John Francis Bray (1809–97), in his major work, much quoted by Marx, *Labour's Wrongs and Labour's Remedy* (1839). Bray was born in Washington DC, the child of English actors, and, when his mother died, his ailing father brought John Francis back to Leeds in England in 1822. In Leeds, Bray became a compositor, and plunged into the trade-union movement, becoming treasurer of the Leeds Working Men's Association in 1837.

Like the others an extreme utilitarian, Bray, in *Labour's Wrongs*, asserts that God had meant men to be happy, but that unhappiness was injected into the world by the institution of private property, which destroyed the just institution of communal property, particularly in the land. From private property arose the odious division of labour and class conflict, exploitation of labourers and extraction of their surplus value by the capitalist class. Moreover, Bray averred that the root problem is the alleged fact of unequal exchange. Although understanding that, in market exchanges, each party benefits, Bray asserts that, especially in a labour contract, this is not enough, that the exchange and its benefits must be 'equal'.

Not realizing that there is no point in *any* exchange unless the value, for each man, of each of the two exchanged goods is *unequal*, Bray, in a notable pre-Marxian passage, asserts:

Men have only two things which they can exchange with each other, namely, labour and the product of labour; therefore, let them exchange as they will, they merely give, as it were, labour for labour. If a system of exchanges were acted upon, the value of all others would be determined by the entire cost of production, and equal values would always exchange for equal values.³⁴

Here we have packed into one short compass a number of crucial Marxian fallacies: that only commodities are produced or important (in contrast to allegedly non-productive services); the ancient Aristotelian fallacy that exchange *implies* equality of value; the labour theory of value; and the idea that in a just world, prices will all be equal to their costs of production, basically the quantity of labour hours expended in production.

To John Bray, as to Marx after him, the remedy for all this systemic evil is communism, 'the most perfect form of society man can institute'. But in contrast to Marx, Bray saw no inevitable mechanism or law of history to yield that great event. To the contrary, and in contrast to the other communists of his day, John Bray perceived that communism required a New Com-

unist Man to work, but that the advent of this new man was definitely not on the horizon. Any communism would come up against 'the foul and loathsome selfishness which now more or less accompanies every action, clings to every thought, and pollutes every aspiration'.³⁵

Instead, Bray focused his vision, not on the impractical and remote ultimate goal, but on his allegedly practical transition, or intermediate, social goal. That happened to be a hypertrophied version of the cooperative schemes that had proved so alluring to Thompson and Gray. Bray proposed that the world be organized into one vast cartelized network of cooperative corporations: that is, cooperatives organized on the principle of one stockholder, one vote. The cartelized network would be achieved by the workers and cooperators *buying out* all existing capitalists. Bray did not seem to see that acquiring the capital to finance this most massive buy out of all time might be even more impractical than organizing Marx's violent proletarian revolution.

Scratch a socialist of this epoch and one will find a money crank. Sure enough, Bray envisioned that the cooperative cartel, once established, would eliminate existing money, and substitute a national bank that would issue notes to each worker based on the quantity of labour-time he had expended in production. The goods the labourer would buy would in their turn be priced at the amount of labour-time embodied within them. Perhaps if Marx had ever been interested in charting his future communist economy, labour-time notes might have been part of his package.

Strictly, there would be no reason for Marxian labour-time notes to increase, but John Bray, as an inflationist, did not of course see it that way. The function of his national bank would be to keep money issued and flowing 'like blood within the living body,...equably through society at large, and infuse universal health and vigor'. The note issue would, of course, always be kept 'within the limits of the actual effective capital existent' – a form of 'needs of trade' argument at least as absurd as the usual variant.³⁶ For the nominal 'value' of existing capital would of course increase as the money supply kept rising.

A few years after the publication of *Labour's Wrongs*, in 1842, Bray returned to the United States. A second book, *A Voyage from Utopia*, was finished in manuscript, but remained unpublished until the 1950s. For the rest of his life in the United States, Bray wrote sporadically, contributing many letters to labour and socialist periodicals, as well as chapters in the mid-1850s for an unfinished book, *The Coming Age*. Bray's life was as sporadic as his output. He found making a living precarious, working for brief jobs as a printer for newspapers, and complaining, rather inconsistently with his doctrines, that American employers were far more exploitative than British, the 'Yankees', as Professor Dorfman paraphrased Bray, 'appear[ing] more like gamblers and sharpers than honest businessmen'.³⁷

Eventually, Bray went west to Michigan, where he had inherited some land, and eked out a living as a newspaperman and small farmer. During the 1870s and 1880s, Bray became vice-president of the American Labor Reform League and was a member of the socialistic Knights of Labor. His later writings, some of which denounced spiritualism, emphasized attacks on the gold standard and a call for an abundance of state paper money that would allegedly drive interest rates down to zero. His communist ideal was now abandoned as utopian.

Two of Bray's later writings are worthy of note. Even though he was opposed to slavery in *Labour's Wrongs*, his opposition to the Civil War in his anonymous anti-war pamphlet, *American Destiny: What Shall it Be, Republican or Cossack?* (1864) led him onward to judge slavery as really no worse than countries cursed by a huge public debt. Moreover, the natural state of the black man, to Bray, is 'nakedness and indolence', so that a South that freed its slaves would decay irremediably, with capital disappearing, and plantations returning to the wilderness.

In his final book, *God and Man a Unity and All Mankind a Unity* (1879), John Bray added to his money crankism the idea of a 'non-theological religion', in which establishing the right social institutions would bring about a this-worldly kind of 'immortality'.

A striking anomaly is a writer of the 1820s and later who is invariably listed by historians as a leading Ricardian socialist, but who was most emphatically neither a Ricardian nor a socialist. Thomas Hodgskin (1787–1869) was a brilliant, innovative and self-educated political theorist who, far from being a socialist, was a *laissez-faire* libertarian to the point of being an individualist anarchist. Hodgskin's father was a storekeeper at the naval dockyard who sent his son to sea at the age of 12. Eventually, Hodgskin's individualist instincts and principles rubbed against naval discipline, and one day, he writes, 'I complained of the injury done me, by a commander-in-chief, to himself, in the language that I thought it merited; he had unjustly deprived me of every chance of promotion from my own exertions, and that was robbing me of every hope'.³⁸

As one might expect, Hodgskin's naval commander did not take kindly to his outburst of righteous indignation, and Hodgskin was forcibly retired from the navy, at half-pay, at the comparatively young retirement age of 25. Embittered, Hodgskin promptly took revenge on the navy by publishing his first book, *An Essay on Naval Discipline* (1813), a blistering attack on military tyranny. Eloquently, Hodgskin began his work by setting down the main lesson he had learned: 'Patiently submitting to oppression (because it comes from a superior) is a vice: to surmount your fears of that superior, and resist it, is a virtue'.³⁹

Hodgskin's experience left him a bitter enemy of government and government intervention in all its forms; and several years of travelling around

Europe and reading and meeting people strengthened and deepened these convictions. Returning to Great Britain, Hodgskin published a two-volume travel book, *Travels in the North of Germany* (Edinburgh, 1820), in which, as Alexander Gray puts it, ‘innocent *Reisebilder* are interlarded with anarchistic digressions, doubtless to the amazement and perturbation of many of his readers’.⁴⁰

Settled in London, Hodgskin was, for the rest of his life, to work as a lecturer and a journalist. He worked for a while with people who seemed to be his natural allies for *laissez-faire*: Francis Place, James Mill, and the philosophic radicals. But very shortly it became clear that there were severe philosophical differences between them. In the first place, Hodgskin abandoned his early Benthamite utilitarianism for a trenchant and militant natural law and natural rights position. In his brilliant and logical work, *The Natural and Artificial Right of Property Contrasted* (1832), Hodgskin presented a radicalized Lockean view of property rights. An ardent defence of the right of private property, including a homesteading defence of private property in land, Hodgskin corrected Locke’s various slippages from a consistent ‘Lockean’ position. To Hodgskin, it was crystal-clear that ‘natural’ private property rights were sound and just (such as each man in his own person, or in property that he creates or land that he homesteads, or in property which he acquires in an exchange of just property titles). On the other hand, great mischief was performed by ‘artificial’ property rights, that is, rights created by government artificially, in defiance of natural law and natural rights. Hodgskin’s work remains today as one of the best expositions of natural property rights doctrine.

Another difference with the Benthamites was that unfortunately and anomalously, Hodgskin imbibed the labour theory of value from another influential ‘Ricardian socialist’ of the day, the pseudonymous ‘Piercy Ravenstone’.⁴¹ Ravenstone denounced private ownership of land and capital for creating stolen, or ‘artificial’, property, whereas since labour is the sole creator of production, by rights, or naturally, all income should redound to labour. Rent and profit, asserted Ravenstone, are extracted from the product of labour: this ‘fund for the maintenance of the idle is the surplus produce of the labour of the industrious’. Furthermore, Ravenstone put forth a truly bizarre theory of capital, in which ‘capital’ is a non-existent concept designed to cloak the theft of labour’s surplus. Capital, Ravenstone absurdly declared, ‘may be increased to any imaginable amount without adding to the real riches of a nation’.⁴²

From then on, Hodgskin was afflicted by an anomalous combination of *laissez-faire* anarchism and a Ravenstonian labour theory of value. How square the two? At first, Hodgskin tried to do so by attributing the exploitation, the ‘surplus value’ of labour, solely to such government intervention as

the Combination Laws, which restricted the right to form labour unions. Hence Hodgskin helped found the *Mechanics' Magazine*, and then its affiliate, the London Mechanics' Institute, an institution for lectures to the working classes. During the course of the successful Ricardian-Benthamite agitation for repeal of the Combination Laws in 1824, Hodgskin wrote his Ravenstonian booklet, *Labour Defended Against the Claims of Capital* (1825), followed by Mechanics' Institute lectures published as *Popular Political Economy* (1827).

Particularly bizarre was Hodgskin's development of the Ravenstonian view that capital is unimportant and non-existent. Hodgskin denies that any savings are involved in capital, any advances from foregone consumption. Circulating capital, he says sophistically, are not produced in advance; the bread the worker buys is baked each day rather than being stored in advance by the capitalist. In fact, of course, no one claims that the capitalist actually stores the workers' food and other means of subsistence in advance; but his saved money is advanced ahead of production and sale to the worker, which enables the worker to buy his subsistence now instead of having to wait for years. As for fixed capital, not only is it stored-up labour – a general Ricardian socialist argument – but these machines are only 'inert, decaying and dead matter', unless 'guided, directed and applied by skillful hands'. Hodgskin concludes that 'fixed capital does not derive its utility from previous, but present labour', grotesquely ignoring the fact that just because capital and labour need each other does not make labour the *sole* factor of production. In the crowning absurdity, Hodgskin declares that 'it is a miserable delusion to call capital something saved'.

There is no question that Hodgskin's ultra labourism influenced Karl Marx, but his extreme labour theory of value does not make him a Ricardian, much less a socialist. In fact, Hodgskin was highly critical of Ricardo and the Ricardian system, denounced Ricardo's abstract methodology and his theory of rent, and considered himself a Smithian rather than a Ricardian. Smith's natural law and harmony-of-interest free market doctrine was also far more congenial to Hodgskin.

Although continuing to be a labourist, Hodgskin became increasingly repelled by the English labour movement, and its growing interest in state intervention. Labour unions he no longer saw as much of a remedy, let alone a panacea. Increasingly, he saw that the only way to reconcile labourism and *laissez-faire* was to press for the repeal of all government intervention, indeed of all positive law that was not simply a restatement of natural law and natural rights. For all such law was an invasion of rights of property. In contrast to the Ricardian socialists who extolled cartel-like cooperatives, Hodgskin called for removal of all government restrictions on free and unlimited competition. He enthusiastically joined Cobden and Bright in agitation

for repeal of the Corn Laws, and in repealing feudalistic laws restricting and entailing land from free sale outside the family. From 1846–55, Hodgskin served as an editor of the *Economist*, the journalistic champion of *laissez-faire*, with as yet no important incompatibility of views with editor-in-chief James Wilson. There he became a friend and mentor of the young Herbert Spencer, hailing Spencer's anarchistic work, *Social Statics*, with the exception of denouncing the early Spencer's pre-Georgist land socialism on behalf of Lockean individualism.

Furthermore, even at his most labourist in the 1820s, Thomas Hodgskin, in contrast to John Gray, widened rather than narrowed the definition of 'labour'. Mental activity is as much 'labour', he pointed out, as muscular exertion, so he warned against limiting the term 'labour' to the 'operations of the hands'. Not only that: Hodgskin also pointed out cogently that the capitalist is also very often a manager, and therefore also a 'labourer'. So whereas capitalists may be oppressors, businessmen in their capacity as managers or 'masters', 'are labourers as well as their journeymen'. And there is nothing wrong with the wages of management.⁴³

In addition, the Hodgskin of the 1820s hailed retailers as 'indispensable agents', and praised wholesalers and merchants in Smithian terms as conferring blessings on society by pursuing their own interests. Even bankers 'are still very important, and have long been very useful labourers'. Banking, 'let us never forget...is altogether a private business, and no more needs to be regulated by meddling statesmen, than the business of paper-making'. Finally, in his *Popular Political Economy*, Hodgskin eulogized the market price system, which, in a deep sense, is 'the finger of Heaven, indicating to all men how they may employ their time and talents most profitably for themselves, and most beneficially for the whole society'.⁴⁴

After his retirement from the *Economist* editorial board, Hodgskin continued to write articles for that journal. There he praised commerce ('We are all merchants...and...trade is only mutual service by mutual dealing'); speculation ('without speculation we should have no railroads, no docks, no great companies...') and competition ('the soul of excellence, and gives to every man his fair reward').⁴⁵

In his final publication, of lectures on criminal law delivered in 1857, Thomas Hodgskin summed up his economic and political philosophy. The people's wants for higher standards of living, he declared, 'can only be satisfied by more freedom, and less taxation'. The free trade principles of the 1840s must be only a stepping-stone towards ever purer and more consistent *laissez-faire*. Ultimately, all government services must be privatized and subjected to the requirements of the free market:

The unrestricted competition, which nature establishes, must be the rule for all our transactions; and by the higgling of the market, which is mutual and free action, the salaries of [government] officials, and the payments of the priesthood must be regulated as well as the profit of the shopkeeper, and the wages of the labourer.

In printing his lectures, Hodgskin announced his intention of completing and publishing a masterwork, *The Absurdity of Legislation Demonstrated*, which would show, 'in a connected didactic form', that 'all legislation, which of course includes Government, is founded on false assumptions'.⁴⁶

Unfortunately, Hodgskin never completed the work, or published anything further, and when he died, in 1869, at the age of 82, this man, once so widely influential, received not a single obituary notice in the London papers. But, at any rate, enough is surely known to dismiss the view that this individualist, despite the labourism that influenced Marx, was in any sense a socialist, or even a Ricardian.

12.9 Notes

1. As Gray wittily puts it, the dialectic often seems 'to the illiterate and ignorant outsider to become a mere toy which enables every swing of every pendulum to be regarded as the embodiment of a great philosophical principle'. Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1947), p. 300.
2. In Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper & Row, 1980), p. 210.
3. Ludwig von Mises, *Theory and History* (1957, Auburn, Ala.: Mises Institute, 1985), pp. 111–2.
4. *Ibid.*, pp. 109–10.
5. In the *Poverty of Philosophy*, Marx angrily denounced Proudhon for making this very point, that division of labour precedes machines.
6. See M.M. Bober, *Karl Marx's Interpretation of History* (2nd rev. ed., Cambridge, Mass.: Harvard University Press, 1948), p. 9.
7. John Plamenatz, *German Marxism and Russian Communism* (New York: Longmans, Green & Co., 1954), p. 29.
8. *Ibid.*, p. 27.
9. For a defence of technological monocausality as a key to Marxism by the founder of Russian Marxism, George V. Plekhanov (1857–1918), see Plekhanov, *The Development of the Monist View of History* (New York: International Publishers, 1973). Cf. David Gordon, *Critics of Marxism* (New Brunswick, NJ: Transaction Books, 1986), p. 22. For a critique of Marxism–Plekhanovism, see Leszek Kolakowski, *Main Currents of Marxism* (Oxford: Oxford University Press, 1981), pp. 340–2.
10. Von Mises, op. cit., note 3, p. 126.
11. David Gordon, 'Mises Contra Marx', *The Free Market*, 5 (July 1987), pp. 2–3.
12. For the refutation of another, allied point in Marx's ideology doctrine, that each economic class has a different logical structure of mind ('polylogism'), see Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949), pp. 72–91.
13. In the first, 'Bourgeois and Proletarians' section of the *Communist Manifesto*, Marx and Engels continually confuse the concepts of 'caste' and 'class', i.e. class as special privilege vs sets of individuals on the free market. Thus: 'In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations, [i.e., classes as castes].'

- Further, 'The modern bourgeois society that has sprouted from the ruins of feudal society has...established new classes, new conditions of oppression...[The unexamined leap from a caste-class to a free-market situation].'
14. During the 1870s, Marx led Engels to believe that he was working hard and steadily on Volumes II and III of *Capital*. At Marx's death, Engels was astonished to find that Marx had done virtually no work on the manuscript since 1867, in short, that Marx had lied shamelessly to his friend and patron. See W.O. Henderson, *The Life of Friedrich Engels* (London: Frank Cass, 1976), II, p. 563.
 15. See below on the Ricardian contribution to the Marxian theory of class.
 16. Cf. these insights from Marxism's outstanding twentieth century opponent, Ludwig von Mises: 'The theory of irreconcilable class conflict is illogical when it stops short at dividing society into three or four large classes. Carried to its logical conclusions, the theory would have to go on dissolving society into groups of interests till it reached groups whose members fulfilled precisely the same function. It is not enough to separate owners into landowners and capitalists. The differentiation must proceed until it reaches such groups as cotton spinners who manufacture the same count of yarn, or the manufacturers of black kid leather, or the brewers of light beer....No special common interest unites the owners of arable land, of forests, of vineyards, of mines, or of urban real estate... There are no common interests among labourers either. Homogeneous labour is as non-existent as the universal worker. The work of the spinner is different from the work of the miner and the work of the doctor ... Nor is unskilled labour homogeneous. A scavenger is different from a porter'. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (4th ed., Indianapolis: Liberty Classics, 1981), pp. 300–301.
 17. See James Bland Briscoe, 'Saint-Simonianism and the Origins of Socialism in France, 1816–32' (doctoral dissertation in history, Columbia University, 1980), p. 59.
 18. It is difficult not to agree with Alexander Gray's assessment of Saint-Simon, as quoted from the French social philosopher Émile Faguet: 'Saint-Simon is a rare example of incoherence in his life, incoherence in his character, and incoherence in his detailed ideas, combined with a fixity in his ruling views.' (My translation.) Gray, op. cit., note 1, p. 160n.
 19. See F.A. von Hayek, *The Counter-Revolution of Science* (Glencoe, Ill.: The Free Press, 1952), p. 158.
 20. Ibid., p. 159.
 21. James Billington, *Fire in the Minds of Men: Origins of the Revolutionary Faith* (New York: Basic Books, 1980), p. 225.
 22. Ralph Raico, 'Classical Liberal Exploitation Theory: A Comment on Professor Liggio's Paper', *The Journal of Libertarian Studies*, 1 (Summer 1977), p. 179.
 23. Alexis de Tocqueville, *Recollections*, ed. by J.P. Mayer and A.P. Kerr (Garden City, New York: Doubleday & Co. 1970), p. 5.
 24. Raico, op. cit., note 22, pp. 179–80. Professor Tucker, curiously enough, hails *The Eighteenth Brumaire* as a 'brilliant masterpiece', and an application of class struggle analysis and the materialist conception of history. But isn't this work a demonstration of quite the opposite? See Robert C. Tucker (ed.), *The Marx–Engels Reader* (2nd ed., New York: W.W. Norton, 1978), p. 594.
 25. Raico, op. cit., note 22, p. 180.
 26. Ibid., p. 180, 183n4.
 27. Ibid., p. 180.
 28. Von Mises, op. cit., note 16, p. 292; he notes that this passage in Vol 1 of *Capital* was not in the first 1867 edition, but was added by Marx in the French edition (1873). The insertion was connected to the desperate changes made by Marx in his theory in Volume III of *Capital*, not published until after his death.
 29. Gray, op. cit., note 1, p. 271.
 30. From *Labour Rewarded*. See Gray, op. cit., note 1, p. 276.
 31. Ibid., p. 290n.
 32. Ibid., p. 294.
 33. Ibid., pp. 294–5.

34. Quoted in G.D.H. Cole, *Socialist Thought: The Forerunners, 1789–1850* (London: Macmillan, 1959), p. 137.
35. Gray, op. cit., note 1, p. 287.
36. In Joseph Dorfman, *The Economic Mind in American Civilization, 1606–1865* (New York: Viking Press, 1946), II, p. 688.
37. Ibid., p. 689.
38. Élie Halévy, *Thomas Hodgskin* (London: Ernest Benn, Ltd, 1956), p. 30.
39. Ibid., p. 31.
40. Gray, op. cit., note 1, p. 278.
41. Piercy Ravenstone, *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy* (London, 1821).
42. Halévy, op. cit., note 38, pp. 89n–90n. Ravenstone was apparently not a socialist either. Best indications are that he was either the Rev. Edward Edward, a High Tory Anglican clergyman, or Richard Puller, the equally Tory son of a director of the South Sea Company, the Tory speculative banking scheme. Ravenstone's goal was apparently to strike an effective blow against capitalism and free markets by one of their ancient enemies, the High Tory advocates of statism and big government.
43. Gray, op. cit., note 1, p. 282.
44. Ibid., p. 280. Gray, an adherent of the Austrian School, adds a teasing and witty note on his fellow Austrians: 'Even an orthodox economist of these days, brought up on Tales from the Viennese Woods, may well be forgiven if his faith falters when invited to identify the price-system with the finger of Heaven.'
45. In Halévy, op. cit., note 38, pp. 148–9.
46. Ibid., p. 164.

13 The Marxian system, II: the economics of capitalism and its inevitable demise

13.1	The labour theory of value	409
13.2	Profit rates and ‘surplus value’	411
13.3	The ‘laws of motion’, I: the accumulation and centralization of capital	417
13.4	The ‘laws of motion’, II: the impoverishment of the working class	422
13.5	The ‘laws of motion’, III: business cycle crises	428
13.5.1	Underconsumptionism	428
13.5.2	The falling rate of profit	430
13.5.3	Disproportionality	431
13.6	Conclusion: the Marxian system	433
13.7	Notes	434

13.1 The labour theory of value

We have seen that, for the latter half of his life, Karl Marx, exiled in Britain far from the political or possible revolutionary fray, spent the last years of his life searching for the mechanism by which the economics of capitalism would inevitably and ineluctably give rise to its own revolutionary overthrow. In short, the mechanism by which the capitalist class would be expropriated by the revolutionary proletariat, which would then proceed to usher in the various stages of communism.

Marx found a crucial key to this mechanism in Ricardo's labour theory of value, and in the Ricardian socialist thesis that labour is the sole determinant of value, with capital's share, or profits, being the 'surplus value' extracted by the capitalist from labour's created product. 'Capital' was merely 'frozen labour', so that any possible contribution to the product devolves on labour as well.

But, in order to arrive at the labour, or quantity-of-labour-hours, theory of value, Marx, in his systematic work *Capital*, had to dispose of other, subjective, claimants to determining value. He also had to demonstrate that value was somehow objectively embodied in the product (a material good, of course, since Marx, with Smith, had dismissed immaterial services as 'unproductive'). He attempted to perform this feat at the very beginning of Volume I of *Capital*, and how he did it is highly instructive.

Marx begins *Capital* by concentrating on 'the commodity', an object – as we have seen, a *material substance* – which has utility for satisfying human wants. In this way like Ricardo, he leaves immaterial services out of the picture, and also omits studying the value of non-reproducible products, which have no ongoing costs of production. Like Ricardo, Marx also begins with the necessity of utility, but, like his master, he quickly dismisses this basic fact as of little or no use in explaining 'exchange-value', the proportion in which commodities exchange for one another on the market. As in Smith and Ricardo, therefore, use-value and exchange-value, or price, of commodities are sundered from each other. How, then, explain exchange-value? How, in short, explain the proportions by which commodities exchange for each other on the market?

Marx adds that, superficially, it seems that exchange values are relative, that they fluctuate in relation to each other, and that therefore there is nothing objectively 'intrinsic' in the product that determines its value. Marx then sets out to correct this alleged error. Here is the crucial paragraph:

Let us take two commodities, e.g., corn and iron. The proportions in which they are exchangeable, whatever these proportions may be, can always be represented by an equation in which a given quantity of corn is equated to some quantity of iron: e.g., 1 quarter corn = x cwt.iron. What does this equation tell us? It tells us

that in two different things – in 1 quarter of corn and x cwt.of iron, there exists in equal quantities something common of both. The two things must therefore be equal to a third, which in itself is neither the one nor the other. Each of them so far as it is exchange-value, must therefore be reducible to this third...of which thing they represent a greater or less quantity.¹

Thus, Marx inserts his crucial error at the very beginning of his system. The fact that two commodities exchange for each other in some proportion does *not* mean that they are therefore ‘equal’ in value and can be ‘represented by an equation’. As we have learned ever since Buridan and the scholastics, two things exchange for each other only because they are *unequal* in value to the two participants in the exchange. A gives up to x to B in exchange for y, because A prefers y to x, and B, on the contrary, prefers x to y. An equals sign falsifies the essential picture. And if the two commodities, x and y, were really equal in value in the sight of the two exchangers, why in the world did either of them take the time and trouble to make the exchange? Marx’s concentration on ‘the commodity’ threw him off from the very start, for the focus should have been not on the thing, the material object, but in the individuals, the actors, *doing* the exchanging, and deciding whether or not to make the trade.

If there is no equality in value, then there is clearly no third ‘something’ to which these values must be equal. Marx compounds his original error with another, assuming that if there were an equality of value, there is therefore necessarily some third tangible thing to which they must be equal and by which they can be measured. There is no warrant for this leap from equality of value to measurement of an objective third entity; the implicit, and fallacious, assumption is that ‘value’ is an objective entity like weight or length which can be scientifically measured against some third, external, standard.

Having made two egregious and fatal mistakes in one paragraph Marx presses on inexorably to his conclusion. Emphasizing by mere assertion that utility can have nothing whatever to do with exchange-values, a point crucial to his case, he claims that use-values have nothing to do with exchange-values or prices. This means that all real attributes of goods, their natures, their varying qualities, etc., are abstracted from, and can have nothing to do with, their values. By tossing out all real-world properties from the discussion, Marx is perforce left with goods as the embodiment of pure, abstract, undifferentiated labour hours, the quantity of allegedly homogeneous labour hours embodied in the product.

Marx of course sees that there are great problems with this approach. What about the scholastic thrust: is the market expected to cover the costs, the enormous number of labour hours, needed to make a product in an obsolete way? If a book is printed, or hand-scripted, is the market going to cover the payment for the enormous number of labour hours needed in the hand-

copying process? Is the market expected to pay the labour costs of carrying goods across land, as compared to shipping them by sea? Marx's way of disposing of these awkward questions was to create the concept of 'socially necessary' labour time. The determinant of the value of a good is not any old labour time spent on, or embodied in, its production, but only labour time that is 'socially necessary'. But this is a cop out, and evades the issue by begging the entire question. Market value is determined only by the quantity of 'socially' necessary' labour time. But what is 'socially necessary'? Whatever the market decides. So a crucial ingredient of explaining market value is market decisions, market values, themselves.

To elaborate further: Marx defines 'labour time socially necessary' as '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'.² This brings up a corollary problem: how to meld a myriad of different qualities and skills of labour into one homogeneous, abstract 'labour hour'? Here, taking up a hint from Ricardo, Marx inserts the concepts of 'average' and 'normal'. It all averages out. But how is this average obtained? It is done by weights, with higher quality, unusually productive labour weighted more heavily in quantity labour-time units than is the labour of an unskilled worker. But who decides the weights? Once again, Marx's crucial question-begging methodology comes into play. For Marx acknowledges that it is the *market*, its relative prices and wages, which determines the weights, *i.e.* which labour is more productive or higher in quality and in what degree than some other forms of labour. So market values, prices, and productivities are being used to try to explain the determinants of those same values and prices.³

13.2 Profit rates and 'surplus value'

Marx proceeds with his model in a Ricardian socialist manner. In contrast to Ricardo, however, land and rent are simply assimilated into 'capital', since man's labour allegedly created all land anyway, and since the importance of land and feudalism allegedly disappears as capitalism proceeds on its way. Values and prices of land therefore need not be treated or explained. There are, then, two mighty classes under capitalism: the homogeneous labourers, the proletariat; and 'the capitalists' [as in Smith and Ricardo, there are, of course, no entrepreneurs. All is in slowly moving long-run equilibrium]. But the values of goods are the sole creation of quantities of labour-hours. Capitalists, by some sort of coercion, by their imposed set of property relations, extract by force a 'profit' from the product of the 'exploited' workers. This profit is 'surplus value', the value seized by capitalists out of total value produced.

Profit, for Marx, is derived *only* from exploiting labour; it is the surplus value over the wages necessary for the subsistence of labour. Profits, on the other hand, have nothing to do with the amount of capital invested; for