

Professor Duncan K. Foley

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**KARL MARX AND THE HISTORY OF ECONOMIC THOUGHT:
WHY THE “LABOR THEORY OF VALUE”?**

Term Paper

Cameron M. Weber

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“All economists share the error of examining the surplus-value not as such, in its pure form, but in the particular forms of profit and rent”

- Karl Marx (1860)¹

INTRODUCTION

The purpose of this paper is to critique Marx’ system of scientific socialism from the perspective of pre-Austrian School classical liberal intellectual and economic thought.

In doing so most fundamentally we will explain why the class struggle and capital’s exploitation of labor is necessary to complete a system based on Marx’s philosophical predispositions. This analysis then begins with Marx’s concept of historical materialism through to the workers’ revolution, sheds light on the pre-Austrian originations of social theory, makes a case for Marx’s awareness of this pre-Marxian class analysis and how and why Marx adjusted the pre-Austrian origins of the class struggle to suit the requirements of his own system, and finally, we will show that Marx creates an irresolvable, and logically incoherent split between microeconomic behavior and macroeconomic structure by using the dialectic in order to maintain a comprehensive labor-exploitation system of value, a system² of value necessary to achieve his, albeit perhaps well-intentioned, sought- after political and philosophical ends.

The paper attempts to capture the essence of Marx’s thought on political economy relevant to our narrative, however, the most fundamental sources are *The German Ideology*, *The Communist Manifesto*, *Capital*, and in particular *Theories*

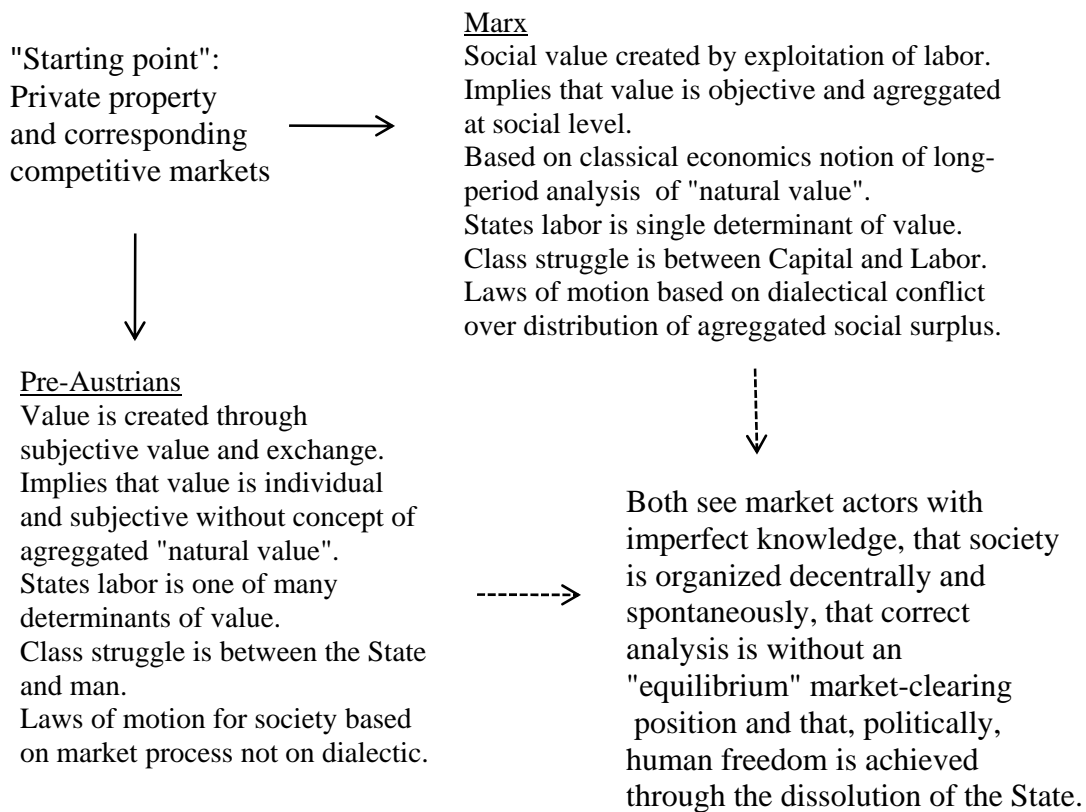
¹ From the first page of the *Theories of Surplus Value*.

² It is well-known that none of the classical economists including Marx actually used the phrase “Labor Theory of Value”, therefore in order to avoid debating whether or not Marx’ labor-based economics was a conjecture or a definition we will use for the purposes of this paper the term “system” to describe Marx’ use of labor-value in economics.

of Surplus Value. The goal of the paper is to ground the critique in Marx' work itself and its antecedents, not in post-Marx thought, and as such the paper is a work on intellectual history not on post-Marx Marxism.

Fig. 1

Heuristic on Marxian and "pre-Austrian" Pre-Analytical Visions of Capitalism



In Figure 1 we find that the Marxian and pre-Austrian pre-analytical visions share similarities and differences (Marxism and the Austrian School being two “radical” schools of economics in today’s vernacular, or non-“vulgar” in perhaps Marx’s terminology³). The main difference of course is that the pre-Austrians (Comte, Destutt de Tracy, Dunoyer, Thierry, Turgot and Say) write that value is subjective, economic goods are by definition scarce, that relative prices are based on relative scarcity, that individually- and socially-constructed subjective preferences are realized through supply and demand, and that there is mutual gain from exchange (as opposed to a conservation of value in exchange in the Marxian “natural value” formulation).

Marx wrote that value in exchange is not based on scarcity⁴ and subjective preferences but that value is found in the quantity of labor embedded in each commodity and that demand is culturally and historically (socially) determined.

The predominant similarity, as argued in this paper, is that the pre-analytical visions of both Marx and the pre-Austrians is non-Panglossian; that the world is not perfect as it is, that there is indeed a “problem” with society as it is, this problem being man’s exploitation by man through a class struggle. For Marx the

³ It is difficult to determine exactly what Marx means when he says “vulgar economics”. In one sense it appears that he means it as a criticism of those he deems as ‘apologists’ for the capitalist system of production, e.g., for the inability to capture “the Other” or the march of history in their analysis. Or perhaps Marx meant those economists that didn’t use (how could they, it would be anachronistic) his solely labor-based system or his dialectical commodity as a starting-point for analysis, “It is one of the chief failings of classical political economy that it has never succeeded, by means of its analysis of commodities, and in particular their value, in discovering the form of value which in fact turns value into exchange value” (Marx 1860, Part I, 174, fn 34).

It might be said that the pre-Austrians are immune to this criticism because *use-value* is by definition subjective (subjective reality) and it is through mutually advantageous exchange in the market that this value gains phenomenological meaning, e.g., *exchange-value* (objective reality). Marx does not agree with this reasoning, stating in *Theories of Surplus Value* that J.B. Say “separates the vulgar notions occurring in Adam Smith’s work and puts them forward in a distinct crystallized form” (Book III, 510). Marx here might be confusing free-market exchange with the interests of the ruling class, something which as we shall see later, is the exact opposite of the intent of the pre-Austrians who believed that the market would minimize the power of the ruling class.

⁴ Marx did address how scarce land and subsequent rents on land reduced the profit of capital (profit of course being determined by exploitation of labor), a formulation which might be (if not already) generalized by Marxists to all scarce (non-reproducible) economic goods including fine art and intellectual property.

“problem” is the exploitation (the capturing of the social surplus) of the worker by capital⁵, whereas for the pre-Austrians it is the State which exploits man through the taking by force of the productive forces of society.

In Marxian terms the secondary determination in analysis is that the market tends towards equilibrium (tends towards the “natural value”) but due to factor rigidities (in modern vernacular) market prices oscillate around this value only hitting the equilibrium point at random.

The real profit deviates from the ideal average level, which is established only by a continuous process, a reaction, and this only takes place during long periods of circulation of capital. The rate of profit is in certain spheres higher in some years, while it is lower in succeeding years. Taking the years together, or taking a series of such evolutions, one will *in general* obtain the average profit. Thus it never appears as something directly given, but only as the average result of contradictory oscillations. It is different with the rate of interest. In its *generality*, it is a fact which is established daily, a fact which the industrial capitalist regards as a pre-condition and an item of calculation in his operations. The average rate of profit exists indeed only as an ideal *average figure*, insofar as it serves to estimate the real profit; it exists only as an average figure, as an abstraction, insofar as it is established as something which is in itself complete, definite, given. In reality, however, it exists only as the determining tendency in the movement of equalisation of the real, different rates of profit, whether of individual capitals in the same sphere or of different capitals in the different spheres of production. TSV 3 p462 -463

For the pre-Austrians the ‘market process’ (entrepreneurial discovery in creating goods which, hopefully, will be demanded) is what creates the movement towards equilibrium. Entrepreneurs process limited (local and imperfect) knowledge to make economic decisions and because of the epistemological impossibility of perfect economic calculation equilibrium itself cannot be achieved.

The pre-Austrian concept of creative entrepreneurial discovery, the market process of estimating and providing for demand, the mutual gains through trade, and the impossibility of perfect foresight in an infinite world is captured by Turgot.

⁵ As we shall see later it is “capital” as a non-human force which “confronts” even the capitalist, thusly, it is not really then man who exploits the capitalist but capital under capitalism itself.

From the green-woman who exposes her ware in a market, to the merchants of Nantz or Cadiz, who traffic even to India and America, the profession of a trader, or what is properly called commerce, divides into an infinity of branches, and it may be said of degrees. One trader confines himself to provide one or several species of commodities which he sells in his shop to those who chuse; another goes with certain commodities to a place where they are in demand, to bring from thence in exchange, such things as are produced there, and are wanted in the place from whence he departed: one makes his exchanges in his own neighbourhood, and by himself, another by means of correspondents, and by the interposition of carriers, whom he pays, employs, and sends from one province to another, from one kingdom to another, from Europe to Asia, and from Asia back to Europe. One sells his merchandize by retail to those who use them, another only sells in large parcels at a time, to other traders who retail them out to the consumers: but all have this in common that they buy to sell again, and that their first purchases are advances which are returned to them only in course of time. They ought to be returned to them, like those of the cultivators and manufacturers, not only within a certain time, to be employed again in new purchases, but also, 1. with an equal revenue to what they could acquire with their capital without any labour; 2. with the value of their labour, of their risk, and of their industry. Without being assured of this return, and of these indispensable profits, no trader would enter into business, nor could any one possibly continue therein: 'tis in this view he governs himself in his purchases, on a calculation he makes of the quantity and the price of the things, which he can hope to dispose of in a certain time: the retailer learns from experience, by the success of limited trials made with precaution, what is nearly the wants of those consumers who deal with him. The merchant learns from his correspondents, of the plenty or scarcity, and of the price of merchandize in those different countries to which his commerce extends; he directs his speculations accordingly, he sends his goods from the country where they bear a low price to those where they are sold dearer, including the expence of transportation in the calculation of the advances he ought to be reimbursed. Since trade is necessary, and it is impossible to undertake any commerce without advances proportionable to its extent; we here see another method of employing personal property, a new use that the possessor of a parcel of commodities reserved and accumulated, of a sum of money, in a word, *of a capital*, may make of it to procure himself subsistence, and to augment, his riches (Turgot 1766, Section 66).

Both Marx and the pre-Austrians believe that the exact form of the future cannot be pre-determined. For the pre-Austrians the creativity of the entrepreneur and the process of the competitive market means that change is constant, whereas for Marx the dialectic means that communism is inevitable but it is unknown as to what shape this new form of societal organization will take.⁶

⁶ Marx did not publish in his lifetime what later became known as the *Economic and Philosophy Manuscripts of 1844* where he details the [socialist] violence necessary after the revolution to destroy the bourgeois institutions of capitalism prior to the emergence of communism.

MARX'S SOCIAL AND ECONOMIC THOUGHT

Marx developed what is seen by some 'Marxists' as an internally-consistent system of scientific socialism, said socialism being the result of a dialectical progress of unsustainable stages of history leading up to communism (socialism itself being unsustainable), communism which is of itself, perhaps, the end of history (although Marx as an "organicist"⁷ or evolutionist might not have deemed it possible to declare it as such).

We begin our analysis of Marx's system with Historical Materialism, that stages in the history of human development can be best understood by evaluating the property relations at any given stage of history. These property relations are the Social Relations of Production. The Social Relations of Production are the predominant determinant in defining the Modes of Production for any given stage of history (in the capitalist stage of history where private property and market relationships predominate, the predominant Mode of Production is wage-labor in a factory system; in feudalism, agriculture production by a serf-class is the predominant Mode of Production, in ancient Greece and Rome - the "ancient" stage of history - the ownership of slaves and slave labor is the general, predominant, Mode of Production).

The 'thesis' and 'antithesis' of any period of history (in capitalism, the thesis and antithesis is the working class contra the capitalist class, an unsustainable class struggle) play themselves out as history progresses into a 'synthesis', and this synthesis brings with it a new stage of history and a new dialectic, and thus a new set of moments (the moment being the surface 'appearance' of the underlying dialectical "essence") creating historical movement. This is Hegel's 'march of history', but, however counter-juxtaposed with Hegel, Marx taught that history was a march of material, economic, forces, not a march based on a dialectic of opposed ideas or idealism. Both Hegel and Marx though, it might be argued, saw this historical march as one towards human freedom.

Marx in his "Preface to a Contribution to the Critique of Political Economy" (1859) states that the reason he turned to the study of political economy, away

⁷ See Sciabarra 1995 on Marx as an evolutionary, non-teleological, methodologist.

from and after the study of philosophy, is because he believed that it was economic forces which controlled man's destiny.

My inquiry led to the conclusion that neither legal relations nor forms of state could be grasped whether by themselves or on the basis of a so-called general development of the human mind, but on the contrary they have their origin in the material conditions of existence, the totality of which Hegel, following the example of the Englishmen and Frenchmen of the eighteenth century, embraces the term "civil society"; that the anatomy of this civil society, however, has to be sought in political economy (pp 2-3).

Marx in his subsequent economic writings then is considered canonically as a 'classical' political economist, meaning, definitionally and historically, as an economic writer who came before the "marginal revolution" of the 1870s. (His self-acknowledged predecessors in political economy are most fundamentally Adam Smith, David Ricardo and John Stuart Mill.⁸) As a "classical" then he sought after a long-term invariant measure of value for commodities (for Marx the "commodity" itself representing a dialectic between use-value and exchange value) that are traded in an economy, a "natural value" around which market prices gravitate and a said "natural value" which emerges only in the long-term.⁹ Marx then, as is well known, settled on the labor embedded in a commodity as this measure of "natural value."

This labor-embedded natural value then fits into Marx' larger system of historical materialism for the 'capitalist' stage of human development.¹⁰ While

⁸ In fact it might be more accurate to say that Marx was a critic, not necessarily a devote follower, of the classicals, although he used much of the classicals' ideas (particularly "natural value" and the long-period, competition and a class-based analysis of macroeconomic distribution) to build his own system. For Marx as a critic for example see Chapter 51 of Volume III of *Capital* which is a critique of J.S. Mill, despite Mill being a leader of 'progressive' and pro-labor thought during his time.

⁹ For example Smith 1776 spent many pages comparing, irresolvably, corn (wheat) or gold as a measure of value which in "all places and all times" held as this measure of 'natural value'. Infamously, Ricardo too spent much of his life after his *Principles* of 1817 in search of this measure of natural value.

¹⁰ Smith had as his stadial history the hunter-gatherer, primitive agriculture and animal husbandry, feudal and commercial stages of development, while Marx, the Asian, ancient, feudal and modern bourgeois [capitalist] stages or "epochs" (Marx 1859, 4). As we shall see later, perhaps the first economist to use stages of history as an analytical device was Turgot in 1750.

Ricardo had a ‘93% labor theory of value’, Marx, when adding the class struggle of the capitalist class exploiting the working class (exploitation being the missing element in Ricardo’s formulation of the labor theory of value and the analytical element which completes Ricardo’s class, or macroeconomic, analysis of distribution), devised a similarly cost of production-based theory of value where *all* value in production originates from labor, with the rate of exploitation of the worker (value created by the worker above and beyond the wage received by the worker) accruing to the exploiter class, the capitalist, depending on how much the capitalist could exploit the worker (the rate of exploitation). The greater the exploitation of the worker, the greater the profit to the capitalist.

The Social Relations of Production are then that the capitalists (as a class) own the means of production and the Mode of Production is that the worker (the proletariat as a class) creates societal value through the “modern bourgeois” (capitalist) system of wage labor. Capital itself has value because it contains dead exploited labor (constant capital) . This “capital” is put into motion by the capitalist into the circuit of production, said production which adds more value through more exploitation of living (variable capital) labor and thusly then more accumulation of capital and economic expansion.¹¹

Marx’ system is one of political economy and not one of economics (here defined as limited to the analysis of the distribution of a given set of resources and consumer preferences, a given “starting point” in a Walrasian system) because Marx used political economy to describe history’s march. This march according to Marx is one where the increasing exploitation of the worker, who receives only a historically and culturally-determined subsistence wage, leads to increasing wealth on the part of the capitalist (as a class) relative to the worker (as a class), capital then becomes concentrated and centralized (meaning a growing ‘army’ of oftentimes unemployed labor as previous capitalists lose their capital and become part of the working class). Thusly and finally a revolution against the remaining capitalist class takes place by the increasing numbers of exploited and immizerated workers.

¹¹ It is beyond the scope of this paper to analyze Marx’s theory of pre-revolution capitalist “crisis” brought about by capital accumulation and technological change with increasing amounts of dead labor embedded in capital in relation to living labor in the circuit of production at a given time.

Along with the constant decrease in the number of the capitalist magnates, who usurp and monopolize all advantages of this process of transformation, the mass of misery, oppression, slavery, degradation and exploitation grows; but with this there also grows the revolt of the working-class, a class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist process of capitalist production. The monopoly of capital becomes a fetter upon the mode of production which has flourished alongside and under it. The centralization of the means of production and the socialization of labor reach a point at which they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated (Marx 1867, 292) .

This revolution leads to a new form of the State (one where the majority rules over the minority, counter to the trend of history); the dictatorship of the proletariat (socialism). This new form of the State destroys (through the revolution and “raw communism”) the capitalist stage of history and the capitalist stage’s Social Relations of Production which then leads to a classless society (after a transition period and cultural lag), where man is free from exploitation by man (communism, or, a State-less society) and material distribution is communally (socially) - and not privately-based.

When, in the course of development, class distinctions have disappeared, and all production has been concentrated [sic] in the hands of a vast association of the whole nation, the public power will lose its political character. Political power, properly so called, is merely the organized power of one class for oppressing another. If the proletariat during its contest with the bourgeoisie is compelled, by the force of circumstances, to organize itself as a class; if, by means of a revolution, it makes itself the ruling class, and, as such sweeps away by force the old conditions of production, then it will, along with these conditions, have swept away the conditions for the existence of class antagonisms, and of classes generally, and will thereby have abolished its own supremacy as a class.

In place of the old bourgeois society, with its classes and class antagonisms, we shall have an association, in which the free development of each is the condition for the free development of all (Marx 1848, 32).

THE PHILOSOPHICAL FOUNDATIONS OF MARX'S SYSTEM

Marx's system of historical materialism, where temporally irreconcilable forces create movement toward another, more free, stage of history, was based on the writings of Hegel, whose 'continental' philosophy it might be said was a Romantic reaction against the individualism of the Enlightenment. For Hegel it was not in fact natural law and the rights of man which created human freedom. Man was a communal person, a social person, a species-being, whose true essence could only be found in uniting with what Hegel called the "Other". It was only a change in human nature or a change in consciousness which could negate, subsume and transcend the Other and thusly achieve a higher stage of human existence.

This idea of alienation in Hegel came from his belief that God's creation of nature (including man) was of itself an act of alienating man from God, this then resulted in Hegel's "social theory of mind" where only a collective, social man, can reunite man with God. This is of course the antithesis of Enlightenment thought and orthodox Christianity where redemption and reunification with God is an individual redemption and where it is natural rights and the Golden Rule which guide moral conduct on earth and which then determine an individual's personal redemption based on his or her (individual) earthly conduct towards other individuals.

Following Hegel Marx also believed that man was separated from himself, his species-being, by limits of consciousness. Hegel said that man placed these limits upon himself through his mental or ideological processes. Marx said the opposite ("turning Hegel on his head"¹²) and believed that it was man's material, economic, surroundings which prevented the rising of collective consciousness and allowing man's unification of himself with himself. In material terms this alienation under capitalism manifests itself in the economic division of labor. In one of Marx' most well-known passages (from the *German Ideology*) we can see how this alienation

¹² Another area where Marx turned Hegel on his head was in the hoped-for endgame in human development. Where, we have seen, Marx saw a State-less communism, Hegel saw, in *Philosophy of History*, the ultimate expression of human freedom, of human One-ness, as being found, finally, in the newly-created Prussian State; subjective reality, free choice, met objective reality through accepting the power of the State. In an ironic twist Hegel's perhaps "sell-out" of human freedom to one of an ideal of authoritarianism might be seen as the idealism of Hegel himself being subject to the power relations of this newly created next stage Social Relations of Production. Of course this is just conjecture. Contemporarily Schopenhauer wrote of Hegel, "Governments make of philosophy a means of serving their State interests, and scholars make of it a trade," quoted in Popper 1945, 33.

would be resolved under communism where a person was free (by becoming a communal species-being, or actually by realizing his species-being) to do as they please without the need to earn a living under the capitalist system by specializing in any one activity. It is only by giving up ourselves to the communal that we actually gain control of ourselves.

Further, the division of labour implies the contradiction between the interest of the separate individual or the individual family and the communal interest of all individuals who have intercourse with one another. And indeed, this communal interest does not exist merely in the imagination, as the "general interest," but first of all in reality, as the mutual interdependence of the individuals among whom the labour is divided. And finally, the division of labour offers us the first example of how, as long as man remains in natural society, that is, as long as a cleavage exists between the particular and the common interest, as long, therefore, as activity is not voluntarily, but naturally, divided, man's own deed becomes an alien power opposed to him, which enslaves him instead of being controlled by him. For as soon as the distribution of labour comes into being, each man has a particular, exclusive sphere of activity, which is forced upon him and from which he cannot escape. He is a hunter, a fisherman, a herdsman, or a critical critic, and must remain so if he does not want to lose his means of livelihood; while in communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner, just as I have a mind, without ever becoming hunter, fisherman, herdsman or critic. This fixation of social activity, this consolidation of what we ourselves produce into an objective power above us, growing out of our control, thwarting our expectations, bringing to naught our calculations, is one of the chief factors in historical development up till now (Marx 1848, 13,14).

THE ORIGINS OF THE “SOCIAL” SURPLUS

The communal, or social, philosophical pre-disposition defining freedom is carried-over into Marx’s economic writings and his system of scientific socialism. If we view society or the economy, as Marx did, as first a system which reproduces itself, then anything beyond this material reproduction represents a surplus.

$$\text{Reproduction} + \text{Surplus} = \text{Economy (Society)} \quad (1)$$

Then, because man’s essence is only realized in its social, communal, self, and because man’s social consciousness is held sway by the fetters of materialism this surplus then pre-analytically becomes a “social” surplus.

$$\text{Reproduction} + \text{Social Surplus} = \text{Economy} \quad (2)$$

From here we can view the foundations for Marx’ system of economic value. Unlike the pre-Austrian view which says that the surplus (profit) belongs to the entrepreneur whose creativity¹³ (and perhaps luck) provides economic goods of subjective value to those that wish to buy them or exchange for them, we have a system where the surplus is one which belongs objectively to social man and not to an individual entrepreneur creating subjectively-demanded value. For Marx then the challenge is to create a system which, 1) allows a revolutionary agent to bring about the new, State-less, stage of history, and 2) can identify the source of the ‘social’ surplus.¹⁴ Logical and philosophical necessity creates the exploitation of

¹³ Remember in Marx’s historical materialism, where man’s ideas are formed by the superstructure determined by the social relations of production, any independent thought is not creativity *per se* but ideology, therefore there is no room (degrees of freedom) for entrepreneurial discovery to manifest itself into societal value. All value is created by exploitation of labor and not by individual ingenuity. This is of course diametrically opposed to the pre-Austrian view where exchange itself, and the creative act of producing goods of value for voluntary exchange, is what brings expanding value.

¹⁴ Marx’ disdain for private property, supply and demand and the free-market is brilliantly and concisely expressed in *The German Ideology* (page 14).

labor (the change agent) by capital (against which the change agent reacts) with the source of profit (surplus value) being said-same labor.¹⁵

THE PRE-AUSTRIAN FOUNDATIONS OF SOCIAL THEORY¹⁶

In Figure 2 we have traced Marx's references to the pre-Austrian roots of social thought, which include all of the elements later found in Marx's system of scientific socialism. The most comprehensive and systematic writings on the pre-Austrian social theory were found in the journal *Le Censeur Européen* from 1817 to 1819 by Charles Comte, Charles Dunoyer and Augustin Thierry, in which they outline their social theory as one called "industrialisme". "Industrialisme" is a

How otherwise could for instance property have had a history at all, have taken on different forms, and landed property, for example, according to the different premises given, have proceeded in France from parcellation to centralisation in the hands of a few, in England from centralisation in the hands of a few to parcellation, as is actually the case today? Or how does it happen that trade, which after all is nothing more than the exchange of products of various individuals and countries, rules the whole world through the relation of supply and demand – a relation which, as an English economist says, hovers over the earth like the fate of the ancients, and with invisible hand allots fortune and misfortune to men, sets up empires and overthrows empires, causes nations to rise and to disappear – while with the abolition of the basis of private property, with the communistic regulation of production (and, implicit in this, the destruction of the alien relation between men and what they themselves produce), the power of the relation of supply and demand is dissolved into nothing, and men get exchange, production, the mode of their mutual relation, under their own control again?

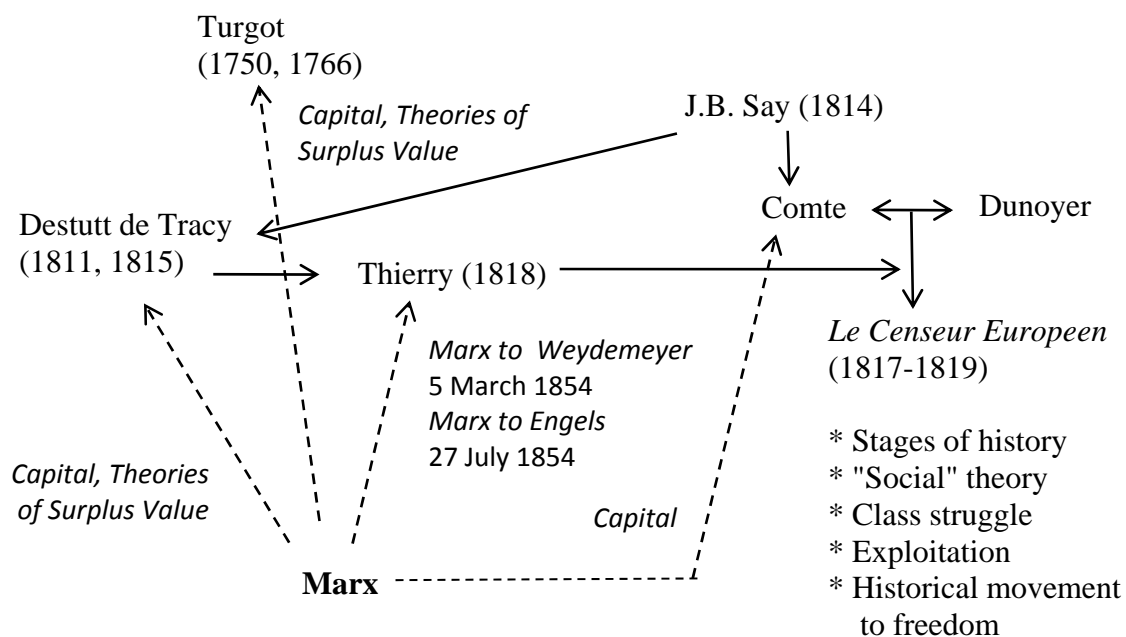
¹⁵ This explanation for the development of Marx's labor-based economics is not meant to deny that Marx's sympathy for the wage-laborer in the factory system of the mid-19th century played a role in his pre-analytical vision. Additionally, Marx idea of the necessity of revolution too might derive from one of his historical heroes, Spartacus, who led a massive slave revolt against the Romans. But again this is mere speculation.

¹⁶ The research in this section is based on the work of Raico 1977, Rothbard 1995 and Weinburg 1978, however, these authors did not cross-reference their research to the writings of Marx nor do a systematic comparison of Marx's scientific socialism with that of the radical French political economists as conducted in this paper and in this section in particular.

two-class social theory¹⁷ where society is classified as the productive forces of society (those that trade freely with each other absent coercion) and the unproductive forces in society (or the State, who lives off the productive forces through coercion). I have not been able to trace Marx's direct use of any of the *Le Censeur Européen* articles, however, I have found evidence that Marx used the work of Thierry in his studies of political economy, whose writings in *Le Censeur Européen* included lengthy book reviews of Antoine Destutt de Tracy and J.-B. Say, whose work Marx cites directly, as he does in Comte, in his published work.

Figure 2

Karl Marx and Historiography of Pre-Austrian Class Struggle in Political Economy



¹⁷ The pre-Austrian social theory is a “theory” and not a system in the sense of classical physics because ‘energy’ is not conserved in exchange, there is an increase in subjective utility through social exchange.

The pre-Austrian social theory can be summarized as follows. The stages of history are defined as one where the power elite, through plunder, becomes the dominant class in society through to the capitalist stage. In capitalism the State maintains its power through the coercive (mostly taxes, the granting of monopoly rights, trade barriers and subsidies) taking of the productive forces of society. A free society, whose productive people are able to gain increasing utility through trade, is a just society. Only individuals themselves know what brings them value (utility) so therefore any forces (the State) which intervenes in this value-creating exchange represents unjust exploitation. This exchange itself is socially-determined. The market, *laissez-faire*, is what brings human freedom because as the market, and therefore competition, increases, the ability of the State to exploit man becomes in turn minimized. Therefore human freedom is realized not through a violent revolution as under Marx's scientific socialism but a peaceful evolution of productive cooperation in exchange.

The productive forces represent the exploited "class" and the unproductive forces are the exploited "class". Class consciousness leading to freedom does not depend on a uniting of man with an alienated version of himself after a socialization of the means of production and a later "withering away" of the State, but through education of the population against the exploiting class and through the developing market process of the capitalist stage of history itself. Similar to Marx, the State withers away.

The first among the pre-Austrians to outline a theory of history (the hunting, pastoral, and agricultural stages) was Turgot in his *Plan de deux discours sur l'histoire universelle* (1750). Marx acknowledges Turgot's theory of historical evolution, "Among the later representatives of the Physiocrats, especially Turgot, this illusion disappears completely, and the Physiocratic system is presented as the new capitalist society prevailing within the framework of the feudal society. This therefore corresponds to bourgeois society in the epoch when the latter breaks its way out of the feudal order" (Marx 1860, Part I, 50).

It is well-known in the history of economic thought that the Physiocrats had a class system comprising of landowners (rentiers), manufacturers and agriculture laborers. It is only the agriculture worker who is "productive" (because it is only land and agriculture products which bring value to society), the other classes being "sterile". It is from perhaps from the Physiocrats, and specifically Turgot, where Marx derives his theory of exploitation of the worker. "The seller sells what he has not bought. Turgot at first presents this unbought element as a pure gift of nature. We shall see, however, that in his writings this pure gift of nature becomes imperceptibly transformed into the surplus-value of the labourer which the

landowner has not bought, but which he sells in the products of agriculture” (Marx 1860, Part I, 55). Marx’s take on a Turgotian theory of exploitation can be juxtaposed with the lengthy quote from Turgot at the beginning of this paper as “riches being augmented” through trade, and the economic calculations necessary to make this trade, itself, and not on exploitation. There are quotes from Turgot, like all Physiocrats, that agriculture is the sole source of the growth in wealth, however, this does not necessarily amount to ‘exploitation’ of the agricultural worker.

Charles Comte shows that under the pre-Austrian social theory of class in fact productive and unproductive forces in society are the individuals (aggregated to a class) that produce voluntarily for social exchange versus the individuals (aggregated to a class) that live by expropriating the labor of others through coercion, under feudalism (the landed class and ruling elite) and under capitalism (the State).

[Under feudalism] a kind of subordination that subjected the laboring men to the idle and devouring men, and which gave the latter the means of existing without producing anything, or of living nobly (Comte 1817, 22).

What must never be lost sight of is that a public functionary, in his capacity as functionary, produces absolutely nothing; that, on the contrary, he exists only on the products of the industrious class; and that he can consume nothing that has not been taken from the producers. (Comte 1817, 29-30).

Augustin Thierry reviewed Destutt de Tracy’s *Commentaire sur l’esprit des lois de Montesquieu* (1811) in *Le Censeur Européen* in 1818. This review was one of the founding works of the social theory of “industrialisme”. Thierry writes that the march of freedom (literally Napoleon’s march) ending feudalism in European history was accomplished by the State, but, “[that] it was only in losing their powers that the actions of government ameliorate” (Thierry 1818, 230).

Marx does not in any of his published works (that I have found) mention the work of Thierry but in an 1852 letter to Joseph Weydemeyer acknowledges (perhaps his debt to) Thierry.

Finally if I were you, I should tell the democratic gents en general that they would do better to acquaint themselves with bourgeois literature before they venture to yap at its opponents. For instance they should study the historical works of Thierry, Guizot, John

Wade and so forth, in order to enlighten themselves as to the past ‘history of the classes’Now as for myself, I do not claim to have discovered either the existence of classes in modern society or the struggle between them. Long before me, bourgeois historians had described the historical development of this struggle between the classes, as had bourgeois economists in their economic anatomy” (Marx 1852, 2-3).¹⁸

Marx however, turns the pre-Austrian theory of exploitation on its “head” and instead of the exploiting and unproductive class being the State it becomes capital, and as stated, this ‘turn’ is necessary under Marx’s system of scientific socialism in order to ensure the capital-labor class struggle and hoped-for (or historically necessary) revolution. We can see Marx’s turn in his critique of Destutt de Tracy in *Theories of Surplus Value*.

Le comte Destutt de Tracy : *Eléments d'idéologie, IVe et Ve parties. Traite de la volonté et de ses effets*, Paris, 1826 ([First edition] 1815).

“All useful labour is really productive, and the whole laboring class of society equally deserves the name *productive*” (p. 87)

But in this productive class he distinguishes, “the labouring class which *directly produces* our wealth” (p. 88) – that is what Smith calls the productive labourers.

As against these, the *sterile* class consists of the rich, who consume their rent of land or rent on money. They are the *idle class*. (Part I, 269, all emphasis in original).

Marx is imposing, or in fact is correcting what he sees as the mistakes in Destutt de Tracy’s analysis of class, his inverted class system on the work of Destutt de Tracy. When Destutt de Tracy writes of ‘useful productive labor’ and of a

¹⁸ In this letter Marx also states that he was the first to discover the uses of class analysis as necessarily leading to the dictatorship of the proletariat and thusly to the abolition of all classes. We know from ‘industrialisme’ theory that the first claim is true but perhaps not the second. Again Marx either through lack of knowledge of *Le Censeur Européen* or through ideologically does not acknowledge the ‘industrialisme’ theory that the market leads to the (almost?) abolishment of the exploiter class and thusly to a (almost?) classless society. The concept of the free market based on property rights for Marx is as we have seen in the *German Ideology* is counter to uniting with the Other and thusly a vulgar apology for existing class systems under capitalism. This can be juxtaposed to the social theory of the pre-Austrians and the abolishment of actually-existing class systems which do not depend on macroeconomic-structural determinism, as shown in the next section of this paper. Marx again mentions his esteem for Thierry in a letter to Engels four months after his letter to Weydemeyer.

‘laboring class’ he means this as opposed to those who do not produce for the market and social exchange, e.g., those who live through the taking of the productive labor from others by force, e.g. the State. He does not mean, nor does he use the term ‘capital class’, to define his (original) version of an unproductive class. Unproductive for the pre-Austrians is not labor which does not produce a surplus value as it is for Marx, it is a class of people who under pre-capitalist stages of history used plunder to expropriate value produced by the productive and under capitalism use the power of the State to expropriate the productive.¹⁹

The determination of the whether or not the “idlers” are productive or unproductive needs to be traced back to whether or not the source of the individual’s capital was gained through coercion or through the market. Marx in the same section of *Theories of Surplus Value* quoting Destutt de Tracy, “‘To find how these revenues’ (on which the idlers live) ‘have been formed it is always necessary to go back to the *industrial capitalists*’ (p. 237, note)” (Marx 1860, Part I, 270). For example under the pre-Austrian theory we need ask do these ‘rentiers’ live off of money lent to the State or through capital accumulated by special monopoly rights in trade granted by the State. Marx is using the term industrial capitalist to mean the capitalist class when in fact it is the class of productive labor juxtaposed with that of coercive expropriation. Free exchange, again, is the movement towards and the foundation of a free and prosperous society.

Society is purely and solely a continual series of exchanges. It is never anything else, in any epoch of its duration, from its commencement the most unformed, to its greatest perfection. And this is the greatest eulogy we can give to it, for exchange is an admirable transaction, in which the two contracting parties always both gain; consequently, society is an uninterrupted succession of advantages, unceasingly renewed for all its members (Destutt de Tracy 1817, 6).

Finally²⁰, Thierry shows how the exploiter class is removed by the productive class through the market and competition under (free-market) capitalism, through the breaking of the “fetters” placed on society by the expropriators.

¹⁹ *Productive labor* in ‘industrialisme’ means of course entrepreneurs producing for social exchange and does not mean in the classical sense of producing things under a wage-contract which are necessary for social reproduction of the (wage-earning) labor force.

²⁰ It is beyond the scope of this paper to analyze Marx’s critique of J.-B. Say who was Charles Comte’s father-in-law. Comte reviewed Say’s *Treatise on Political Economy* (1814) in *Le*

An invisible and ever-active power, labor spurred by industry, will precipitate at the same time all of the population of Europe into this general movement. The productive force of the nations will break all its fetters....Industry will disarm power, by the desertion of its satellites, who will find more profit in free and honest labor than in the profession of slaves guarding slaves. Industry will deprive power of its pretexts and excuses, by recalling those the police keep in check to the enjoyments and virtues of labor. Industry will deprive power of its income, by offering at less cost the services which power makes people pay for. To the degree that power will lost its actual force and apparent utility, liberty will gain, and free men will draw closer together. (Thierry 1818, 256-257).

CRITIQUE OF MARX'S SOCIAL ECONOMIC SYSTEM

In Marx we can find a clear dichotomy (schizophrenia if you will) between microeconomics and macroeconomics. All value in an economy is produced by capital (as a class) exploiting labor (as a class), yet, we find that individual actors (agents) in the competitive economy act to maximize their own individual returns.

Capitalists seek (as individuals) to find the highest return for their individual capitals, thereby resulting in a long-period natural rate of profit through competition and capital mobility between sectors. Workers (as individuals) move between skill sets to maximize the returns to their labor, yet, workers (as a class) don't, can't, earn above a socially-determined long-period subsistence wage.²¹

Marx recognized this limit in his system, and specifically identified the fact that workers must consume all of their wages or will indeed become capitalists themselves.

Censeur Européen in 1817. Say on Ricardo and Smith is mentioned throughout *Theories of Surplus Value* and clearly Marx finds Say's value-utility creation through supply and demand a formidable opponent eventhough Marx calls say a "miserable individual" (Part III, 493).

²¹ "The price of his work will therefore be determined by the price of the necessary means of subsistence" (Marx 1847, "By What are Wages Determined?", 26), and, "Besides this mere physical element, the value of labor is in every country is determined by a traditional standard of life" (Marx 1865, 57).

The fact that it becomes capital only after it has been disposed of, makes no difference, any more than the use-value of cotton is altered by the fact that its use-value only emerges after it has been disposed of to the spinner or that the use-value of meat only becomes apparent after it has been transferred from the butcher's shop to the consumer's table. Hence money, once it is not spent on consumption, and commodities, once they are not used as means of consumption by their owners, transform those who possess them into capitalists and are in themselves—separated from the capitalist production process and even *before* their conversion into “productive” capital—capital, that is, they are self-expanding, self-maintaining and self-increasing value (Marx 1860, Part III, 461).

In order for Marx's system²² of increasing relative worker immization to be “closed” it is instrumental that the worker consume his or her entire wage, otherwise the number of capitalists would increase not decrease. Therefore the competition of the market which is supposed to equalize returns to labor (wages) is predetermined at a subsistence, reproduction, wage level at the macro-level. There appears to be little room for worker incentives to retool skill-sets to remain competitive if they are only to gain a predetermined wage no matter what they do. Therefore it appears that reproduction of society seem logically unlikely under the Marxian labor-based economic system because there is no individual micro-incentives to better oneself and find more lucrative ways to spend one's time (time in any one given person's life being the ultimate scarce resource) due to macro-structural predetermination.

In addition we find that in the Marxian system the capitalist is in fact a worker, who earns wages equal to the rate of profit once interest and rent are subtracted from the surplus value created by labor. However in the case of the capitalist, he or she is exploited not by himself or herself but by a dialectically-created disembodied aggregate entity called capital. This is consistent with Marx' critique of capitalism as an unsustainable (unfree) stage of human development but it is not logically compatible with a capitalist-worker class struggle and the worker as revolutionary agent. For if capitalists are workers, and workers are workers, then what is the aggregated dominant class to be necessarily, historically, overthrown?

²² Marx writes that his system of objective economic value (scientific socialism) is based on the laws of physics, which during Marx's time was based on the conservation of energy. “In considering such transformations it is always necessary to distinguish between the transformation of the economic conditions of production, which can be determined with the precision of natural science, and the legal, political, religious, artistic or philosophic, in short ideological, forms in which men become conscious of this conflict and fight it out” (Marx 1859, 4). There is no space for mutual gains through human exchange if value can only be conserved phenomenological and not expanded subjectively as in the pre-Austrian pre-analytical vision.

Since the moneyed capitalist in fact receives his part of the surplus-value only as *owner of capital*, while he himself remains outside the production process; since the price of capital—that is, of the mere title to ownership of capital—is quoted on the money market as the rate of interest in the same way as the market price of any other commodity; since the share of surplus-value which *capital as such*, the *mere ownership* of capital, secures is thus of a *stable* magnitude, whereas the rate of profit fluctuates, at any given moment it varies in the different spheres of production and within each sphere it is different for the individual capitalists, partly because the conditions under which they produce are more or less favourable, partly because they exploit labour in capitalist fashion with different degrees of circumspection and energy, and partly because they cheat buyers or sellers of commodities with different degrees of luck and cunning (profit upon expropriation, alienation)—it therefore appears natural to them, whether they are or are not owners of the capital involved in the production process, that *interest* is something due to capital as such, to the ownership of capital, to the owner of capital, whether they themselves own the capital or someone else; industrial profit, on the other hand, appears to be the result of *their* labour. As operating capitalists—as real agents of capitalist production—they therefore confront themselves or others representing merely idle capital, as *workers* they consequently confront themselves and others as *property owners*. And since they are, as matters stand, workers, they are in fact wage-workers, and because of their superiority they are simply better-paid workers, which they owe partly also to the fact that they pay themselves their wages (Marx 1860, Part III, 477).

We note here that residual profit (actually capitalist wages) is based upon the intensity of exploitation of the worker (but not the exploitation of the capitalist class themselves as worker, again an inconsistent logical device as is the fact that if wages are at subsistence level are we to assume that it takes more to feed and house one person than another?) and the degree of “conditions more or less favorable” (e.g., State-enforced barriers to free-market competition) and the overt cheating of trading partners (in Marxian terms “unequal exchange”).²³ Marx’s vision of profit can be juxtaposed with the lengthy Turgot quote earlier in this paper where the entrepreneur creates value in society by producing goods that are

²³ Where is Adam Smith’s “spectator” in this formulation of human behavior? And why would someone enter into a contract voluntarily, a ‘starting-point’ in Marx’s analysis of capitalism, unless they thought (subjectively) that they would gain from it, whether or not they were “cheated”? Competition, again a starting point in Marx’s system, weeds-out the fraudulent economic actors, as no one will trade again with those who have conducted fraud against them in the past.

demanded by others and that gains are mutual, not through exploitation or cheating.²⁴

Competition amongst capitals at the micro level, a core tenet of the classical economic theory that the profit rate tends to equalize, presupposes free competition, yet if any profit above and beyond the paying of land rent and interest results in merely a (subsistence however defined) wage, where is there room for an individual capitalist's motivation for acting competitively?²⁵ The only way to assume economic behavior on the part of capitalists under the Marxian system is to say that some wages (the capitalist's) are above an aggregated historically-determined norm or that the capitalist class' subsistence wage is greater than that of the working class. This is self-evident and tautological in a class-based system, but it is not consistent with a labor-based economics where all value in society is created by the exploitation of wage-labor by one class over another because even the exploiter class becomes in the end wage-labor. This might be the fatal flaw in the Marxian labor-based economic system.²⁶

²⁴ Mongiovi 2002 states “the surplus theories of the classical economists” and the “supply-and-demand frameworks of the marginalists [sic]” are “mutually incompatible approaches to the *theory* of value and distribution” (page 399, emphasis in the original). It is hoped that this paper has shown that there may be some pre-analytical similarities in the radical branches of both of these schools of thought.

²⁵ Marx gives his response to this question, it is not Adam Smith's answer that we have a natural tendency to trade and better ourselves, but one of fear; capitalists need to seek the highest return for their capital or will themselves become victims to the capitalist system, specifically the prey of other capitalists through concentration and centralization of capitals. “It is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals” (Marx 1867, 777). This is consistent with microeconomic competitive behavior but inconsistent with a social theory based on class consciousness and class solidarity.

²⁶ Some Marxists - who though do subscribe to other tenets of Marxism (perhaps for reasons of their own pre-analytic vision) such as historical materialism, labor exploitation and egalitarian theories of distributive justice, theories of radical change and holistic subjects of analysis - have as well come to the conclusion that the “Labor Theory of Value” is logically unsound, many for reasons not outlined in this paper. See Veneziani 2008 for a survey on Marxist analysis post-“Labor Theory of Value”.

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