

**Alex Callinicos**

## **Assault on Marx's Theory of Value**

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### **Karl Marx and the Close of His System**

by Eugen von Böhm-Bawerk, and

### **Böhm-Bawerk's Criticism of Marx**

by Rudolph Hilferding

Paul Sweezy (ed.)

*Merlin Cloth £5.25 Paperback £2.40*

Marx once wrote that 'the period of crisis ... is simultaneously that of theoretical investigations.' Certainly the last few years have seen a tremendous revival of interest in Marx's economic thought. Merlin Press's publication of a new edition of Paul Sweezy's classic collection of essays on the labour theory of value is timely.

The labour theory of value was first developed by the British classical economists. By the end of the eighteenth century it had become clear that the apparently irregular fluctuations of commodity prices obeyed an underlying law. Adam Smith and, in a much more consistent fashion, David Ricardo showed that price movements depend on the process of production: the labour theory of value states that the value of a commodity is determined by the amount of time workers have to spend producing it.

Marx completed the labour theory of value by drawing out its most important implication. He showed that the process of production of commodities is also the process by which the working class is exploited. The source of value, the worker's labour power, is itself a commodity which sells at a value which is less than the value he creates while working for the capitalist who buys his labour power. Profits originate in the surplus value extracted from the worker in the factory. Marx was thus able to show that a society obeying the law of value is not the 'natural' form of society, as Smith and Ricardo believed, but one dominated by a particular, transitory mode of production and based on the exploitation of the worker by the capitalist.

The evolution of the labour theory of value from Ricardo to Marx led to a reaction among bourgeois economists. If a theory of value that based itself upon the relation between the production process and price movements could have such subversive implication then it would have to be replaced by another one. Hence the 'marginal revolution' in the late nineteenth century, when classical economy was replaced by the subjective marginal theory of value ought to be which prices are determined by consumers' subjective preferences for different goods. The ideological character of this theory of value ought to be obvious – the preferences of a worker on £40 a week and of a company chairman like Sir George Dowty on £700 a week are going to be a bit different – but it remains the academic orthodoxy.

Eugen von Böhm-Bawerk, a Viennese academic and civil servant, played a major role in developing the marginal theory of value. His attempted refutation of Marx's theory of value bases itself on the alleged 'contradiction' between Volumes I and III of **Capital**. According to Böhm-Bawerk, in Volume I Marx claims that the labour theory of value is valid, while in Volume III, published posthumously by Engels, Marx, recognising that he had been wrong in the first volume, admits that commodities do not, in fact, sell at their values.

Böhm-Bawerk is wrong on two counts. Firstly, as Engels pointed out in his preface to **Capital**, Volume II, Marx had already written the draft of Volume III when he finished Volume I!

Secondly, far from contradicting the labour theory of value, Volume III is an *application* of that theory. Observation shows that capital, wherever it is invested, will tend to receive profits at an average rate that is the same for all industries. At first sight this seems to contradict the labour theory of value, according to which the amount of surplus value extracted will depend on particular conditions in each industry like the length of the working day, the productivity and intensity of labour, etc.

Marx dealt with this problem by drawing certain distinctions for the first time. According to him there were two types of capital – variable capital, the workers' wages, and constant capital, the amount of money spent on machinery, raw materials, buildings, etc. The ratio between constant and variable capital he called the organic composition of capital. He also distinguished between the rate of surplus value, the ratio between surplus value and variable capital, which measures the degree of exploitation, and the rate of profit, the ratio between surplus value and total capital, both constant and variable, which is what enters into the calculations of the capitalist who has to replace the capital which he advances plus a surplus – his profit.

The organic composition of capital will vary from industry to industry, and with it the rate of profit, which depends on the amount of capital required per worker. Under the pressure of competition, capitalists will transfer their investments from industries where the rate of profit is low to those where it is high. Through this sort of capital movement a general rate of profit is established which averages out the differences between the rate of profit in different industries. As a result, commodities do not sell at their values, but their prices of production – the cost price of the commodity, i.e., the amount of money the capitalist advances to produce it, plus the average profit.

Marx is careful to point out that the labour theory of value is not contradicted by the transformation of value into prices of production. What takes place is a *redistribution* among the various capitalists of the total surplus value created in the process of production. Surplus value is transferred from sectors where the rate of profit is above average to sectors where it is below average. No new value or profit is created by this process.

The difference between value and price of production is one of theoretical abstraction. At the more abstract level where Marx analyses the capitalist process of production as such ( i.e. in Volume I of **Capital**) there is no need to consider the relation between different capitals and so he can assume that commodities exchange at their value. At the more concrete level reached in Volume III, where he does deal with the relation between different capitals, Marx shows, *on the basis of the labour theory of value*, that this relation is governed by a general rate of profit formed by competing capitalists seeking the most profitable field of investment. Thus he writes in the **Grundrisse**, ‘competition is nothing other than the inner *nature of capital*’, which ‘can only exist as many capitals’ as distinct from ‘*capital in general*’ which appears ‘*only as an abstraction*’ but whose laws, based on the labour theory of value, enable us to understand the relation between the different competing capitals.

Marx’s transformation of value into prices of production has come under fire from some Marxists, for example, Mike Kidron and Sweezy himself. They base their criticisms of Marx on the work of a German statistician, Ladislaus von Bortkiewicz, one of whose articles on the transformation problem is printed in the appendix to this book.

According to Von Bortkiewicz, Marx’s transformation of value into prices of production was logically incoherent. The price of production of a commodity is made up of two components – (1) the value of the constant and variable capital used up in its production, and (2) the average profit on this capital. But, as Von Bortkiewicz points out, in the arithmetical

examples Marx uses to illustrate the transformation, he omits to transform component (1). Yet this is obviously wrong – the machinery and raw materials used up in producing a commodity are themselves commodities whose values will have been transformed into prices of production through the formation of a general rate of profit. So Von Bortkiewicz provides his own mathematical version of the transformation, taking into account the fact that the inputs required to produce a commodity will have been bought at their price of production rather than their value.

Von Bortkiewicz was wrong on two scores. Firstly, he confuses the arithmetical problem with the principles governing the transformation. Marx was well aware that *in principle the value* of inputs would have to be transformed – see, for example, **Capital**, Volume III, pp.163-6.

Secondly, Von Bortkiewicz's solution of the transformation problem involves the abandonment of the labour theory of value. As he writes elsewhere, his solution not only dispenses with 'the need to start with magnitudes of value and surplus value, but the latter magnitudes do not even appear in the calculation, if one adopts the correct formula'.

The reason for this is methodological. For Von Bortkiewicz value and price are on the same level of theoretical abstraction and therefore can be treated by means of a set of simultaneous equations, as in marginalist 'general equilibrium' price theory. The result is that, as he points out, value analysis can be dispensed with. Because the equations are reversible, the value of commodities can even be read off from their prices.

But for Marx value relations are the starting point from which all other economic relations are analysed. The formation of prices of production can only be understood on the basis of the labour theory of value. As the Austrian Marxist Rudolph Hilferding points out in his reply to Böhm-Bawerk, the law of value, directly valid for its 'social product and its parts, enforces

itself only inasmuch as certain definite modifications, conformable to law occur in the prices of the individual capitalistically produced commodities – but these modifications can only be made comprehensible by the discovery of the social nexus, and the law of value renders us this service’.

Von Bortkiewicz would only by a historical curiosity if it were not for the fact that the validity of his solution has become wrongly identified with the validity of the theory of the permanent arms economy. This is because on Von Bortkiewicz’s solution the rate of profit on commodities that do not enter directly or indirectly into the production of wage goods does not affect the determination of the rate of profit. He saw this as confirming Ricardo’s theory of profits, according to which the rate of profits depends on the rate of wages and so only commodities that directly or indirectly enter into the consumer goods bought by workers can affect the rate of profit. Since arms are not used in further production, so, according to Von Bortkiewicz and Ricardo, the rate of profit in arms industries does not take part in the formation of the general rate of profit. Therefore arms production is safe from the general tendency of the rate of profit to fall as organic composition rises.

But Von Bortkiewicz is unnecessary in explaining how the arms economy works. The problem for capitalists is to find profitable fields of investment for the new surplus value constantly squeezed out of workers. If this surplus value is invested in the production of either constant or variable capital then it will simply add to the mass of commodities which must be bought by the workers and capitalists. When the rate of profit falls as the organic composition of capital rises, many of these goods will go unsold because it will not be profitable for capitalists to carry on expanding at the same rate. The sale of these goods would involve the continued expansion of capitalism and hence the existence of new and profitable fields of investment. Hence capitalist crises are always crises of overproduction. But arms are not bought by either capitalists or

workers but by the state on behalf of the whole capitalist class in order to build up its military strength *vis-à-vis* other states. Thus capitalists are provided with a field of investment which will not simply add to their already existing problems but which possess a market guaranteed by the state and governed by considerations not of profitability but of military effectiveness. (Why the arms economy is now playing far less of a stabilising role is another story.)

Not only is Von Bortkiewicz theoretically redundant, he is also positively dangerous, as is shown by recent articles in **New Left Review** and **Economy and Society** by Geoff Hodgson and Ian Steedman, who have used his work and that of the neo-Ricardian economist Piero Sraffa to launch a frontal assault on Marx's theory of value and profits. He should be approached with caution and scepticism.

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