THE

QUARTERLY JOURNAL

OF

ECONOMICS

OCTOBER, 1895

THE CONCLUDING VOLUME OF MARX'S CAPITAL.

THE third volume of Marx's *Capital*, in two books, comprising nine hundred pages, has now appeared. Thus the remarkable work is brought to a conclusion.* This in externals, at all events; for in its inner and essential structure it has remained uncompleted. Engels, in his preface, describes the unsatisfactory state of the manuscript of the third volume, and the supplementary work which he has been compelled to undertake. As a rule, the beginnings of the seven main parts were worked out with some degree of care. But the further they went, the more sketchy and incomplete they became, until at the

*It is true that, in the preface to the second volume, Engels announced his intention of publishing the historical and critical parts of a manuscript left by Marx, which, under the title *Zur Kritik der politischen Oekonomie*, was to form the fourth volume of *Capital*. In the preface to the third volume he again says that as soon as possible he will begin the fourth volume on the History of the Theory of Surplus Value. Death has now prevented him from carrying out this plan. But, even if he had published such a posthumous work of Marx's, it would hardly have been more than an appendix to the others, and in no sense a systematized part of the whole work.

close there were but fragmentary thoughts or memoranda, and digressions whose place in the text was still undetermined. The influence of bodily illness, which had appeared as early as 1864 and 1865, is often plainly visible; and to this it is to be ascribed that Marx was unable to give the last touches to the second and third volumes. Engels has retained Marx's draft as fully as possible, and has exercised his editorial functions only to secure clearness of statement and propriety of style. In a few passages, however, he has been compelled to bring the matter into satisfactory form himself, or even to rewrite it, on the basis of Marx's material and as much as possible in Marx's spirit. Such passages are indicated by brackets, and so shown to be Engels's work. Least completed were the chapters on Banking and on Money Capital, in the fifth part of the volume. Here, in the main, there was nothing more than unarranged material, memoranda, extracts from official inquiries, with comments of Marx's. Engels was finally compelled to give up the attempt at any set presentation, and had to content himself with simply printing the existing material in as orderly a fashion as possible. It may be a question whether it was advisable to swell the bulk of the volume, already considerable, by incorporating in it these extracts and undigested materials. On the other hand, it may be taken for granted that the editorial changes and additions made by Engels, who more than any other has entered into the Marxian spirit, would have been ratified by the master.

The initial volume of *Capital* appeared in its first edition in 1867. It was a continuation, in a sense, of the *Kritik der politischen Oekonomie*, published in 1859. But the contents of this earlier essay were summarized in the first chapter of the new book, which accordingly was complete in itself. A second edition, described as an "improved" one, appeared in 1872; a third in 1883, after the author's death. To this last edition Marx had been able to give such shape as to make it a final and definitive statement of his views. The second volume was published by Engels in 1885, with no inconsiderable editorial labor. The bulk of the matter was indeed completed and arranged; but the exact language had not been settled. Some parts had been written out *in extenso*, others barely sketched. Of many passages there were two or more versions. Marx had intrusted to Engels the task of "making something" of these materials. Engels conceived the task literally, and contented himself with selecting the best of the several versions, smoothing the style, and inserting, where absolutely necessary, connecting and transitional phrases. His additions and revisions would hardly occupy ten pages of print, and were in all cases of a formal sort. The second volume may therefore be regarded as coming almost exclusively from Marx himself, even though he would doubtless not have published it in the shape in which it appeared. The third volume, on the other hand, was but half drafted, and, as we have seen, called in much larger degree for editorial work from Engels's pen.

The first volume of *Capital*, as is well known, contains the investigation of the process of capitalistic production. Here are set forth the definitions of value and of goods, the conversion of money into capital, the production of absolute and of relative surplus value, and the process of the accumulation of capital. In the second volume the process of the circulation of capital is taken up,— a process in which, according to Marx, neither value nor surplus value is created. Capital simply passes alternately through the forms of commodity-capital and of money-capital, in order to return, either with simple or swollen reproduction, into that form of productive capital which may be appropriate to the existing stage of production. The two processes, however, form one homogeneous movement; and in the third volume the actual concrete forms are to be investigated, which develop out from this whole process of capitalistic production. In other words, the first two volumes discuss in the abstract, and as if they had an independent existence, things which in fact cannot exist independently. Marx wishes now to come closer to reality, and to describe the shapes which capital assumes, as it appears in the interaction of the different sorts of capital, in the working of competition, and in the every-day consciousness of the producing agents.

To the capitalist surplus value appears in the shape of profit; and for him the value of goods divides itself into cost + profit, or $k + p$. On the other hand, Marx's original formula was w [value] $= c + v + m$. Here c represents what is needed to replace the so-called "constant capital" (raw materials, wear and tear of machinery); v stands for the "variable" capital needed for buying labor,— *i.e.*, for wages; while m indicates the surplus value, which, according to Marx, is brought to the hands of the capitalist only through the use of the variable capital. The capitalist, however, looks at the matter from his own point of view, and does not understand the mode in which the accretion of value really takes place,— "really," that is, in Marx's sense. To him it is immaterial whether his capital is used for buying materials or for paying laborers. He therefore refers surplus value to the total capital advanced by him, $c + v$; and for him the rate of profit is expressed not by the rate of surplus value $\frac{m}{v}$, but by the rate of profit $\frac{m}{c+v}$. Profit and rate of profit are simply on the surface of the phenomenon, while surplus value and the rate of surplus value are the hidden but essential objects of investigation. It is true, says Marx, that the instinct of the capitalist always brings him, even in the immediate processes of production, to some consciousness of the real nature of surplus value. So much appears from his "greed for the labor-time of others." But the direct process of production always passes over into the process of circulation, then again returning to the first named. Both processes intermingle, and so obscure their characteristic differences. Capital finally issues into entirely different surroundings, where not capital and labor, but capital and capital, stand opposed to each other, and the individuals appear simply as buyers and sellers. Profit thus appears to arise as much from the process of circulation as from that of production; and thus orthodox political economy is led to describe capital, side by side with labor, and separately from labor, as an independent source of surplus value.

But this "mystification of the relations of capital" goes further. It was a moment ago assumed that profit and surplus value were numerically the same, only conceived differently. With the individualist's capital, however, this is not the case. With the more developed external manifestation (*Veräusserlichung*) of the essence of things, profit and surplus value become quantitively different. Nevertheless, Marx enters on a long casuistic investigation on the relation of the rate of profit to the rate of surplus value, and on the functional dependence of the quantities c, v, m, and p: all this under the assumption (not in correspondence with the reality of things) that in general profit and surplus value are equal.

Not until the second part of the volume does Marx begin the examination of the concrete facts which appear on the surface of industrial life. Not till then does he remove the doubt which he has so far permitted to remain, as to the difference between the value of goods as conceived by him and their exchange value as seen in actual life. It might have been expected from the manner in which Marx, in his first volumes, deduced his conception of value from the equation one quarter wheat $= a$ cwt. iron, that he would mean by "value" normal exchange value, accidental disturbances being disregarded; for he

says that in these two commodities, which, notwithstanding their very different values in use, are set down as equal, there must be some element common to both. Apart from their value in use, there is but one common element, that of their being products of labor. They are things in which abstract indistinguishable human labor has been embodied; and, as crystallizations of this common social substance, they are "values." Value is thus the common element which is expressed in exchange and in the exchange value of goods. Such is the carefully stated position of Marx in the first chapter of his first volume. In numerous other places he also expresses himself as if in actual trade commodities exchanged in proportion to their values; *i.e.*, as if value, in his sense, were proportional to the actual normal prices of commodities. But since the value of commodities, according to his doctrine, is determined by the quantity of socially necessary labor, there is an obvious inconsistency between the doctrine and common experience. It is notorious that, in reality, commodities do not exchange in proportion to the quantity of labor embodied in them. Two undertakings may employ the same number of laborers; but, if the one, requiring more buildings and machinery, has invested in it ten times as much capital as the other, the value of the yearly product of the two, even after making allowance for the necessary replacing of fixed capital, will unquestionably not be in proportion to the quantities of labor embodied. The price of the one will contain ten times as much return to capital as that of the other.

Marx, of course, is as well aware of this fact as any orthodox economist. Already in his second volume he had referred to the dependence of the annual rate of surplus value on the turn-over of capital; but what he had to say in explanation of this "curious phenomenon" was so forced and so unsatisfactory that the reader was led to believe that he was keeping back some great discovery, by which the relation between value as it actually appears and the quantity of labor embodied in commodities would receive new and surprising light. Engels, also, in the preface to the second volume stated the problem to be solved by Marx's opponents in such terms as to create an expectation that some relation heretofore overlooked would be revealed. The world was to be shown how a uniform rate of profit would appear, not only without violation of the Marxian law of value, but in consonance with it.

Several authors since then have engaged themselves on the task thus set, among them the present writer. It was clear that the *price* of individual commodities was not the same thing as their *value*, in Marx's sense. It might indeed be said, on the other hand, that the value of *all* the commodities produced in any one year is measured by the quantity of labor embodied in them, and is proportional to the actual price of the total mass. But there is not much to be made of this proposition. Suppose that A signifies the total mass of normal labor embodied in the yearly product, L the average wages paid for this unit: then, doubtless, the price of all the products of any one year can be indicated by the equation $P = A\ C\ L$, C indicating a coefficient to be duly determined. According to Marx's doctrine this coefficient, or, to be more accurate, the product $C\ L$, must be constant in different years in which the quantity of labor exerted was of different volume, so that for the total prices P, P', P'', it would appear that $P : P' : P'' \ldots . = A : A' : A'' \ldots .$ If it were statistically possible to verify these equations, it would probably appear that in a large community, over not too long a period, in which the methods of production and the proportion of fixed capital to wages capital did not greatly change, they were approximately accurate; but we learn nothing from them as to the relation of capital to wages.

In my endeavors at reaching an explanation of Marx's theories I have therefore tried to solve the problem from Marx's own point of view. The essence of the attempted explanation is that capitalists appropriate a portion of the sum of values which has been exclusively created by the laborers. This total sum A accordingly consists of two parts, Aa and Ac. Aa indicates the labor contained in the commodities that go to wages. Ac indicates that which creates surplus value, and is embodied in the commodities that go to the capital class. If, now, we indicate the total prices of these two masses of commodities by the symbols Pa and Pc, whose sum is P, the following equations can be deduced as to the size and composition of the two masses: —

$$Pa = Aa\ C\ L$$
$$Pc = Ac\ C\ L$$

$C\ L$ here has the same value in both equations. Thus the values which appear in the actual prices of the total mass of wages commodities and the total mass of profits commodities would in fact be proportional to the quantities of labor contained in the two. What is not true of the individual capitalist in relation to his single operations would yet be true of the capitalists as a class in relation to the laborers as a class. The capitalists compel the laborers to produce surplus value; and this surplus value, as well as the share of the total value which goes to laborers, would be measured by the prices of those shares of the annual product which go respectively to capitalists and to laborers. In what manner the capitalist class then divides its total share among its individual members is a matter of indifference for the laborers. In fact, the capitalists bargain with each other on the basis of assigning to each one a share proportional to the amount of capital contributed by him. Land-owners are also capitalists, in the sense in which the term is here used. They get their share on the basis of a capital credited to them by a quasi-fictitious process, their rent being simply capitalized. Similarly, those capitalists who do not directly employ laborers, such as merchants and bankers, get their share of the total of the surplus value on the basis of the capital owned by them. In the preface to the third volume Engels remarks that this my exposition of the Marxian doctrine, though it by no means solves the problem, at least states it, if loosely and superficially, with reasonable correctness.

We will proceed now to that solution, unattainable for the vulgar economist, which Marx himself gives in the second part of the third volume. It is the simple and obvious solution which every one who gives any attention to the problem first turns to, and then brushes aside because he must believe that there is something more beneath. The surplus values which the individual capitalists, under Marx's doctrine, should divide in proportion to their variable capital, are all added together, and then compared with *the sum of the constant and variable capitals*. Thus an average rate of profits is reached, equal to the average of surplus value in its percentual relation to the different capitals composed in varying proportions of c and v. Add now to the cost price of each commodity such profit as is called for by the average rate and the quantity of capital invested in the particular enterprise, and you have the actual price of the commodity. This differs in all cases more or less from its value as conceived by Marx. Therefore, some commodities, as he now explains, are sold for more than their value, others for less than their value. That the sum of the positive differences equals the sum of the negative differences, is not surprising. The differences arise merely because individual surplus values differ from the average of surplus value, and it is a very simple theorem that the algebraic sum of the differences of any number of single quantities from their arithmetic mean is always zero. Two series of commodities may have the

same average value, yet the individual members of each series do not need to have any fixed relation to the individual members of the other series. There is, therefore, no fixed relation between the value of commodities in Marx's sense and the actual exchange values or prices of commodities. Marx does not even make an endeavor to explain any proportion or relation, such as the present writer tried to find, between the total prices and the total "values" of the commodities which go to laborers and capitalists respectively. He contents himself with the proposition that, for the sum total of commodities, variations of their prices from their values offset each other,— a conclusion which, as has already been said, follows as a matter of course from the nature of the average with which he starts.

It is very simple, then, to lay it down as a mathematical proposition that the separate rates of profit, as they appear in each branch of production according to the amount of constant or variable capital employed in it (the "organic composition" of capital), will result in some general average rate. But how this is carried out in the actual world Marx explains in a manner far from satisfactory. He simply refers to the forces of competition,— forces to which, as a rule, he gives little attention. The rate of profit is supposed at the outset to have been very different in different branches of production. Then capital turns by preference to those in which it gets the large gains, and withdraws from those from which it gets the smaller. Prices, or exchange values, are thus so determined that every capital of the same size, no matter what its composition, gets the same average return. But the hypothesis on which this rests is quite untenable. The equality in the rate of profits (apart from accidental irregularities) is of the essence of capitalistic production. There never has been a social condition in which capitalistic methods of production and yet inequality in the rate of profit caused by the different composition of capital have existed side by side. The equality of profits appears *pari passu* with capitalistic methods of production and in inseparable connection with them; much as, in the embryo, the circulation of the blood develops *pari passu* with the development of shape and form.

Marx does not improve the situation by imagining a "capital of average composition," which is made up of constant and variable capital in such manner that profits and surplus value become equal. Such a capital of average composition is by no means an existing normal type. It is but the outcome of a simple arithmetical operation, which rests entirely on the addenda with which it starts, and has no effect whatever upon these addenda. If in any single branch of production, in consequence of the changes in the arts, the relation of c to v becomes different, it follows very simply that there is a change in the average composition of capital. If in any particular branch of production the proportion of c to v should be the same as the average proportion, this would be no more than an accident; and the equality would disappear the moment that in any other branch of production the existing relation of c to v should become different. The capital of average composition is a simple figment, and by no means furnishes, as Marx seems to think it does, any basis for measuring the variations in the rate among those branches of production where capital is made up in proportions different from the average.

Value, as conceived by Marx, is thus a purely theoretical conception. The thing is never to be found in reality, neither in the normal exchanges of commodities nor in the consciousness of the individuals who take part in these exchanges. The quarter of wheat and *a* cwt. of iron do not therefore exchange for each other, because in both of them there is the same quantity of jellified labor. The empirical derivation of his definition which Marx

gave in the first volume thus disappears. He has simply decreed *a priori* that the quantity of socially necessary labor embodied in a commodity shall be for him the measure of its value. He admits that the actual prices, or, as he calls them, the production prices, of individual commodities, do not conform to his law of value. Yet he wishes to preserve the validity of that law for the total of commodities produced, in which he cannot succeed, simply because there is no other quantum of commodities to be compared with this total mass.

It may be asked why Marx clung with such tenacity to this imaginary and unreal conception of value. One reason, doubtless, is that this conception was the foundation of his analysis of capitalistic production; another, that he believed all economic theory to hang suspended in air unless it had a firm foundation in the equation, "value = jellified labor." Having once laid down his law of value as the underlying principle of all economic phenomena, he thought it necessary to begin by deducing conclusions from it on the assumption that it held good literally in its pure and simple form. This task is undertaken in the first two volumes, in which the reader is intentionally left in doubt whether the formulæ do or do not hold good in concrete life. Occasionally, it is true, he intimates that, in his opinion, the phenomena are no more than "appearances." Frequently he calls attention to his *assumption* that commodities are sold at their value; in other words, that their "values" are represented by their exchange values, or prices. This by no means implies, as the reader may be led to suppose, that such a correspondence exists in fact. In his third volume he now tries to show what relation his ideal constructions have to the actual economic processes. His theory gives him one set of formulæ: experience presents another and a different set. There is no difficulty in reaching an arithmetical relation between the two, and deducing from the total of surplus value the average rate of profit for the whole of capital. But this by no means proves that Marx's law of value exercises any such decisive influence as he ascribes to it. It only shows that his hypothetical law can be logically reconciled to economic experience, provided that it is applied not to individual commodities, but to the total of commodities.

We may now proceed to consider how Marx carries out his comparison between theory and the facts in other directions. It would be out of the question to follow him in his tireless casuistics, in which every possible combination is worked out, much to the fatigue of the reader, and with no adequate reward for the pains. We may be content with noticing some of the more important points.

Most interesting is his treatment of the law of the tendency of profits to fall. The existence of this tendency has long been noticed by the vulgar economists, but Marx believes that they have not been able to find a satisfactory explanation. His explanation is that, with the development of capitalistic production, constant capital always grows at the expense of variable; that is, for the same number of laborers larger and larger sums are devoted to machines and materials. Suppose that the constant capital $c = 100$; that the variable capital $v = 100$; that the rate of surplus profit $\frac{m}{v} = 1$, or 100 per cent.: then the rate of profit is $\frac{m}{c+v}$, or $\frac{100}{200}$, or 50 per cent. Suppose now that c is equal to 400, v and the rate of surplus value remaining the same: then the rate of profit is $\frac{100}{500}$, or 20 per cent. The more c grows, other things remaining the same, the more must the rate of profit fall. Now, it appears that in all branches of production such a relative growth of constant capital in fact appears. This is the natural consequence of the increasing productiveness of labor, whose concrete effect it is that, with the increasing use of machines and fixed capital, more materials can be

converted in a given space of time into commodities by the same number of laborers. Hence the general tendency to a decline in the average rate of profit.

Nevertheless, the still more rapid accumulation of capital enables the total of profit going to capital also to increase. The absolute quantity of labor set into motion by capital and its exploitation will increase, notwithstanding the *relative* decline in the variable capital. Consequently, the absolute mass of surplus value will grow. For, according to Marx, it is of the nature of the capitalistic process that the increasing mass of means of production which are to be converted into capital shall find a corresponding increase, and even an excess, in the exploitable population. As capitalistic production develops, the possibility of a relatively redundant number of laborers also develops; and this not because the productiveness of social labor decreases, but because it increases. Marx simply inverts Malthus's proposition. The excess of laborers arises not from a discrepancy between population and means of existence, but from a discrepancy between the steady growth of capital and its relatively diminished need for a greater population.

The law that the rate of profit falls, while the absolute mass of profit rises, finds expression in another way. The prices of the individual commodities fall; but the sum total of profits contained in the prices of all commodities rises. Marx implies that the individual capitalist misjudges the actual situation, believing that he can offset the decline in the price of the individual commodity by selling a larger quantity, and so getting higher gross profits. But this is not in correspondence with the facts. The proposition that the prices of single commodities fall, while the gains from the total sales rise, holds good only for capital as a whole. The individual capitalist lowers the price of his commodity only if he can thereby obtain, even though but temporarily, a rise in his individual rate of profit. He does so only because he believes that by a quicker turn-over of the same capital he can get a higher per cent. of gain in the course of the season. In such cases each individual decides for himself what rate of profit he will aim to secure from every unit produced. But the decline in the general rate of profit on capital takes place independently of his volition. As a rule, individual capitalists get no offset for the decline in the rate from the increase in the total quantity of capital. Either their capital does not increase at all or not enough to offset the decline in the rate of profit. Only a few great capitalists are able to maintain accumulation in the manner described by Marx. A very large part of the fresh accumulations of capital are made by new sets of small capitalists, whose savings are united into large masses through joint stock companies.

Of course, the decline in the rate of profit cannot continue indefinitely; for then profit would disappear entirely, which would be inconsistent with the maintenance of capitalistic production. Marx accordingly sets forth a number of reasons which check the tendency to a fall. The first of these is the "intensification of the exploitation of labor." This appears more particularly in the lengthening of the working day and in the increased intensity of labor. Once more he lays emphasis on the lengthening of the working day, — "this invention of modern manufactures, which has increased the volume of the appropriated surplus labor without increasing the ratio of labor to constant capital."

These words were written about 1865. Even then they were contradicted by a tendency distinctly visible in social development. At present they are simply an anachronism. In what great industry is it now conceivable that the working day should become longer? In all trades and in all countries the working day has been sensibly diminished, and in some states a maximum working day already

exists by law. Much the same can be said of Marx's account of the exploitation of the labor of women and children. The labor of children in factories has been very greatly limited by law in all countries. In Switzerland, Austria, and in most German states, children are not permitted to work in factories before the end of their fourteenth year; in the other German states, not before the end of the thirteenth year. In these countries such labor practically no longer exists. The labor of women, too, has been limited by law in most countries to ten or eleven hours. In short, that lengthening of the working day, which Marx's casuistry so often refers to as a favorite device of the capitalists for squeezing out more surplus value, practically can no longer figure in the case. It is doubtless true that some increase in the intensity of labor has gone hand in hand with the diminished hours of work; but surplus value has hardly been increased thereby, probably has not been kept at its former height. In this direction, therefore, we can find no noticeable check to the tendency of profits to decline.

As another check, Marx adduces the greater cheapness of the constituents of constant capital. In consequence of the greater productiveness of labor the value of these constituents has not risen so much as their quantity. Industry on a great scale makes possible a more complete utilization of machines and other instruments of production, as well as a lessening of general expenses, and other savings in constant capital. Further, the decline in the rate of profits has been checked by forcing wages below the value of labor; which presumably means forcing the price of labor exertion below its value. This, however, would signify that wages no longer sufficed to yield to laborers the rate of wages determined by their standard of living, which can hardly happen except in times of severe crisis. Under normal conditions, reductions of wages are in our time almost impossible. Even under the worst conditions, capitalists in many cases prefer to endure a diminution of their profits rather than enter upon a struggle with their organized laborers. How many corporations maintain wages unchanged, even though the stockholders — *i.e.*, the capitalists — get no dividends?

Marx, in fact, sees himself obliged to give to the capital of corporations a place of its own. He believes that dividends are only a form of interest, and are lower than the average rate of profit. They stand outside the process by which this latter is determined. The greater the growth of corporation capital, the less the pressure which brings about the decline in the rate of profits. Consequently, Marx believes that the increasing development of corporations contributes not a little to maintain the average rate of profit.

But this conception of the corporation and its effects is not consistent with the facts of the case. Such capital does not receive interest. It receives profits under the same conditions as individual capital. It is simply compelled to pay higher expenses for management, and sometimes to submit to losses from carelessness and extravagance in administration. When a factory passes from the hands of an individual owner into those of a company, the relation of capital to labor remains unchanged. With the same number of laborers the amount and the rate of surplus value remain the same. Stockholders get the same rate of profit as the individual owner. They are by no means disposed to content themselves with simple interest on the capital; they wish to get as much surplus value as possible. The products of the factory compete with those of individual owners, and they affect the market and prices simply in proportion to the quantity they turn out. It is certain that the profits of stock companies — even though the stockholders suffer somewhat under the disadvantages mentioned a moment ago — have their share in the formation of the general rate of profits; and,

the greater the number of such companies, the greater their effect upon the rate. This effect, however, is by no means, as Marx says, to check the decline in the rate. On the contrary, it is, in my opinion, the chief cause of that decline. It is a familiar fact that corporations continue to produce under circumstances which would cause the individual capitalist to cease operations. In times of active speculation such companies are founded in large numbers, with little regard to the probable future reaction in the demand for their products. They cease operations, as a rule, only when their working capital and their credit have been exhausted. In manufactures, consequently, the increasing competition of corporations means that the considerations which affect the individual capitalist no longer are decisive. The prices of products are kept low, and so the profits of individual capitalists and the general rate of profits are lowered. There are already branches of production in which the capital of the corporations exceeds that of the individual operators, and in future the actual results of capitalistic production will have to be judged more and more by their experiences.

Marx enumerates still another check to the decline in the rate of profits. This is the relative overpopulation which he believes the capitalistic method of production ever to create anew. The labor which is set free by the steady growth of constant capital in some branches of production finds employment in others in which human labor still preponderates. In these latter constant capital becomes in its turn preponderant only by a gradual process. Further, capital which is invested in foreign trade can secure a higher rate of profit; for an advanced country can sell its commodities for more than their value in countries which are less developed, and this even though it sells its commodities at prices which are low in comparison with those ruling in the less developed country. In this manner the average rate of profit in the first country is again affected favorably.

Marx then proceeds to consider the inherent inconsistencies which develop from the law of declining profits. Yet, curiously enough, he gives no attention to an inconsistency which, from his own point of view, presents itself on first inspection. If value arises exclusively from the labor which is bought with variable capital, and if the profit of capital arises only from the appropriation of a part of the value created by labor, how is it to be explained that capital constantly shows the tendency to displace human labor,— the one value-creating thing,— and to substitute inanimate means of production which have no capacity to produce value? If the capital of a country, in consequence of the introduction of better machines, employs three million laborers in place of six millions, then, according to Marx, only one-half of the previous amount of value is created. Capital has diminished its gains, not only relatively, but absolutely; and its improvements have been to its own detriment. Marx never put the question in this precise form, but here and there in his later exposition there are passages which may serve to answer it. He notices in the first place a conflict between the immediate exploitation of labor,— the absorption of unpaid labor by capital,— and the conditions for the *realization* of surplus value, which can take place only by the sale of the product in the open market. Here the capitalists encounter the obstacles arising from the existing conditions of distribution. By these the consuming capacity of the great mass of the population is so limited that the commodities which come to market can sometimes be sold only at a loss. In fact, there is a conflict in a wider sense. Capitalistic production brings a tendency to an absolute development of the means of production. On the other hand, it endeavors to maintain the value of existing capital, even to increase it. The increase in the productiveness of labor causes an increase in the quantity of useful things, but leads at the same time to a diminution in their value. It is to the interest of capital, however, to secure the greatest turn-over and the greatest possible gain. Capitalistic production is thus an historic means of increasing the instruments of production in such manner as is necessary for the satisfaction of the wants of the community. On the other hand, there is a perpetual conflict between this, its historic mission, and its more immediate aim to secure the greatest return from the capital on hand. At the same time the capital on hand at any given time is exposed to steady depreciation because of the steady improvements in machinery and the continued cheapening of all the constituent elements. True, the decline in profits is hereby checked; but at the same time the formation of new capital is stimulated, and accumulation is hastened.

There is, again, an inherent inconsistency in the fact that overproduction of capital and excess of population — therefore incomplete employment of the laborers — can coexist. In such cases there is by no means absolute overproduction of the instruments of production. They are redundant only in so far as they are appropriate to be used to advantage *as capital*. The excessive population of laborers is no longer applied to the redundant capital; for the swollen capital would yield only as much surplus value as the original capital, perhaps even less. The explanations which Marx gives of the periodicity of crises, and on other related topics, are of great interest, but must here be passed over.

The fourth part of the book treats of the transformation of commodity-capital and of money-capital into commodity-*trade*-capital and money-*trade* capital. The division of labor gives to the capital which is employed in the process of circulation a function which in externals is complete and independent. That function is put in the hands of a special class of capitalists, the merchants and bankers. Now, the labor which is employed in the process of circulation — setting aside that directly applied to transportation — produces neither value nor surplus value. Consequently, the profit secured by mercantile capital has no independent source: it is simply a portion of the surplus value which is created for capital as a whole in the process of production. The true producers have transferred a part of the functions necessary for the utilization of their products to the merchants, and must therefore cede to them a share in surplus value proportionate to the capital of the merchants. Strict consistency would then require Marx to admit that the profit of merchants does not arise from the exploitation of the laborers directly employed by them, — the clerks, porters, and so on. But he cannot bring himself to this view. The unpaid labor of the clerk, he says, does not indeed produce surplus value; but it enables the merchant to appropriate surplus value, and thus is a source of profit for him. Without his help mercantile business could not be undertaken on a large scale, and therefore not in true capitalistic fashion. It is obvious, however, that there is no relation between the gains of a merchant or banker and the labor of his employees. Those gains depend upon the money turnover. As a rule, no more correspondence and office labor are required to dispose of a transaction of a thousand dollars than to dispose of one of ten thousand dollars; and there is no more labor involved in discounting a note for one hundred thousand dollars than in discounting one for ten thousand. Yet the profit in the one case is ten times as great as in the other. If a merchant with a capital of a million makes profits of a hundred thousand, he owes it simply to the fact, which Marx himself has fully explained in an earlier passage, that his advances of capital have enabled him to secure a portion of the surplus value created

in the course of production. His clerks render him services towards the attainment of his share of the surplus value, but their number is always comparatively small. If he really does pay them too little, he saves at best only a few thousands, which represent but a small fraction of his total gains.

The fifth part considers the division of profits into interest and so-called earnings of management. This topic is explained by Marx on lines essentially similar to those of traditional economics. Capital gets its total gain out of the process of production; but, if the active capitalist is not owner of the entire capital, he must give some share of the gains to the partner who has lent him capital. That share, agreed upon beforehand, at so much per cent on the loan, is interest. The chapters on credit, on money-capital, on banking, on the circulating medium, contain in part no more than collections of material out of English parliamentary inquiries. The frequent marginal notes to these are caustic, and often hit the mark. There are also many noteworthy contributions to the theory of money and of banking, which are of value quite apart from the author's socialistic point of view.

The subject of the seventh part is rent. Capitalistic production has in the main put an end to the old forms of property in land, and to the conditions of lordship and serfdom which arose from them. Agricultural production, like other production, has turned to salable commodities; and the rent of land has become a money rent. The final source of the rent of land is again the surplus labor embodied in agricultural products. But the surplus value goes only in part to capital as such. A part is "captured" by the land-owner. Moreover, with the development of agricultural products as "values," the land-owners secure the power to appropriate an increasing proportion of the value which is created without aid from them; and they transform it into rent.

Marx distinguishes between differential rent and absolute rent. The former arises, as a rule, from the fact that the possession of certain sites (mines, waterfalls being also such) makes it possible to produce some commodities at a lower cost price than that which determines the market price. The owners of these sites are thus able to secure an extra profit, which competition cannot take away from them, because land of the superior quality exists only in limited quantity. They thus possess a relative monopoly. The differential rent thus arising appears, according to Marx, in two forms. In the first form it is the result of the different productivity of the same capital when applied to pieces of land of different fertility; while in the second form it arises when quantities of capital are applied successively to the same piece of land, with different degrees of productiveness. In fact, however, rent appears in this second form only with great irregularity and under peculiar conditions. To prove its truth, every dose of capital applied to the land would have to be shown to yield a *permanent and constant* increase in the yield. But the effect of agricultural improvements is in very many cases a diminishing one, and endures only for a shorter or a longer period. Even granting, therefore, that the last dose of capital usually brings a smaller increase in the yield than the first dose of capital brought when originally applied, it does not follow that the capitalist still secures from the first dose the same yield as at the outset. It does not follow, therefore, that the higher price of each unit of product, which was a condition of the last improvement, still yields him a differential rent on the earlier improvement.

Absolute rent arises from the simple fact that the land-owner is able to withhold his land from production until some use of it appears which will yield more than the ordinary return on capital; that is, will yield rent. Even though the price of agricultural produce should rise so

high that the ordinary return on capital could be secured even on the very worst land, the owner, nevertheless, does not put that land at any one's disposal without rent. He lets it only when he can get a rent; that is, when the price of agricultural products has gone still higher. Ricardo, unquestionably, was not aware of this fact. But then Ricardo assumed tacitly that there was always some unappropriated excess, such as exists in newly settled countries, of the land which for the time being was of the poorest class. Marx now endeavors to show that, as a rule, this absolute rent does not arise from a simple monoply price in the products, and that it is not independent of the "values" of these products. It can arise, he says, only when the proportion of constant capital to variable capital is less in agricultural operations than in other applications of capital. In such case the "value" of the product, measured by the labor embodied in it, is greater than its cost price. But the refusal of the owners, desirous as they are of a rent, to permit the application of capital to unoccupied land, causes the market price of products to exceed their cost price. Market price thus approaches more or less closely to the real "value" of the product. Until it has reached this real value, there is no monopoly price. The land-owners are simply able by means of their monopoly to appropriate a part of the excess value produced in agriculture, and this appropriated surplus value does not enter into the process by which surplus value is equalized as average profit. A true monopoly price, determined simply by the needs and the means of the purchasers, does not arise until the market price goes above Marx's "value" of the product. It is difficult to find much practical significance in these distinctions, when once it is remembered that the "average composition" of capital is simply an arithmetical conception, and has no substantial existence.

Space lacks for a consideration of the interesting passages on the genesis of rent, and on the forms which this assumes as labor rent, product rent, and money rent. Similarly, in regard to the fragmentary concluding part, which treats of revenues and their sources, we may content ourselves with noting that it attacks as fundamentally false the dogma that the value of commodities resolves itself in the last instance into wages, profits, and rent. For myself I am of opinion that, when due allowance is made for the half-finished commodities which each period of production receives from that which precedes it, and in turn passes on to that which follows it, this dogma will be found to be confirmed by experience.

As Marx planned his work, it was to be finally brought to a close in a fourth volume. But of this not even a first sketch seems to have come into existence. *Capital* thus remains a torso. Even as such, however, it is a product of perhaps the most intense intellectual exertion which any thinker has ever devoted to the investigation of economic phenomena. By this it is not to be understood that Marx has found the right solution even for the main problems. Nor can it be said that his intellectual work, scattered as it was over too many separate questions, always secured a result corresponding to the intensity of the exertion. But it is certain that, differ as we may as to his practical socialistic tendencies, he is to be assigned a foremost place among the theorists of economic science. In method and in cast of mind he most resembles Ricardo. The fundamental views of Ricardo, in fact, supplied him with the points of departure for his own system, which can be said to be in essentials a development, in a sense strictly logical, of Ricardo's thoughts. Again, notwithstanding the great difference in the outcome, there is a resemblance in their modes of conceiving economic phenomena between Marx and Quesnay. That writer, with Adam Smith and Ricardo, is among the few economists of whom Marx speaks with respect. The manner in which Marx in his second and third volumes groups the individual economic phenomena into great social masses reminds one of the *Tableau Économique*. Even more striking is the analogy between Quesnay's *produit net* and Marx's surplus value. Both investigators ask, how does the division of the total yearly product take place between the classes who produce and the classes who do not produce? Quesnay declares that only the labor which is devoted to agricultural operations is "productive." Here alone the aid of nature enables a surplus to be secured over what is consumed by the agricultural undertaker and laborer. That surplus becomes the *produit net*, which then becomes the income of the disposable class, or land-owners, and the income of the sterile class, the manufacturers and merchants. According to Marx, all socially necessary labor is productive in the sense in which the Physiocrats used the word. It produces more than what is necessary to support the laborer. Such labor is performed only by the actual laborers, irrespective whether employed in agriculture or in manufactures. The surplus value produced by the laboring class goes to the capitalist class, which is not productive. To that class belong not only the manufacturing and trading capitalists, but also the rent-receiving land-owners and the owners of agricultural capital (excepting so far as these last may take some part in productive labor). Marx himself says of the Physiocrats that agricultural capital was believed by them to be alone productive of surplus value; they therefore concluded, rightly enough from their point of view, that only the labor which was set in motion by agricultural capital was productive. They deserve praise for going beyond the superficial form of trade capital, which operates only in the process of circulation, and proceeding to really productive capital. Nay, it is even true that all creation of surplus value has its natural basis in the productiveness of agricultural labor.

Marx's economic theories can be judged quite apart from his socialistic tendencies. They could be presented in the form of an analysis of things as they actually are, without giving any offence to capitalists or arousing among laborers any hostility to the capitalistic method of production. Marx professedly sets aside, as props for his system, all considerations of morals or of justice. He cannot refrain, it is true, from giving his conclusions an ethical turn, by the expression of his antipathy, his hatred, for existing conditions. When he speaks of "the bleeding of the laborers," "the greed of manufacturers for unremunerated labor," "the capitalist's preying instincts," "the booty squeezed from the laborers," there can be no doubt as to the state of mind in which he writes, and which he is likely to arouse in his readers. The actual position of the laborers in their relations with capitalists was not presented in any more comforting light by Ricardo than by Marx. But Ricardo simply leaves the impression that matters are arranged, not indeed so as to be particularly agreeable for the laborers, but at all events in a feasible and unalterable working order. *C'est le ton qui fait la musique.*

It would be quite possible to retain Marx's theory as to the profits of capital and at the same time to describe the capitalist, in the manner of Bastiat, as a philanthropist who exchanged services with his brothers, the laborers. It is unquestionable that there exists in society a class of persons who do not work and who yet receive a share of the goods produced. It follows, as a matter of course, that their share is the product of the labor of others. But it does not follow that this share gets into the hands of the non-laborers without any *quid pro quo* from them. If I let a house to another person, and take rent from him, no one regards the tenant as a victim of my exploitation. It is simply assumed that he finds in the privilege of using the house a complete equivalent for what he has

paid. But if I put my factory, my machines, and my raw materials at the disposal of the laborer, and thereby enable him to earn something by labor which otherwise would be useless, I again render him a service; and it would seem to be just that he should render me a service in return. It is immaterial whether the transaction takes the form of rent, or interest, or the ordinary machinery of wages payments, in which the capitalist takes the additional risk of disposing of the product. Of course, the socialists will protest against this very mild conception of the part played by the capitalists. They will declare it an unendurable social wrong that the laborer is unable to bring his labor to bear without entering into a condition of dependence upon the capitalist. The capitalist, they will say, does not simply offer the use of his means of production. He mercilessly exploits the economic advantage which the existing social order gives him. The laborer is divorced from the means of production. Without them he he is helpless, even in danger of starvation. Whether this version of the case or the more optimistic one is accepted must be largely a matter of temperament and individual interest. Thus, even if the Marxian theory of existing economic conditions were completely adequate, it could form as easily the basis of a theory of economic harmonics, like Bastiat's, as that of socialistic attacks on capitalist production.

This, to be sure, is true only if we consider the theory as a simple scientific analysis of existing conditions. But it contains in addition a distinctly socialistic ferment. Marx, as is well known, is a Hegelian. He sees in the economic development of mankind a dialectic process. In this the ideas that unfold do not indeed spring from any metaphysical source, but from the minds of man; yet in their evolution they follow the Hegelian scheme of thesis, antithesis, and synthesis. Therefore, Marx concludes that the capitalistic system of production is nothing absolute: it is but a temporary phase of evolution, having only an historic justification. It creates of necessity a conflict within itself, which steadily becomes more intense until destruction ensues. A new and higher phase of evolution develops, superseding the earlier one. In an earlier passage reference has already been made to this conflict. It arises from the tendency, innate in capital, towards an increase in productive power, which is in steady conflict with the more circumscribed aim of securing profitable employment for capital.

Now the *bourgeois* economist will say: Conflicts and difficulties, such as arise from overproduction, depressed prices, and the eventual crisis, are simply results of the imperfection of all things human. They can never be completely removed, but a good deal can be done to mitigate them. Marx answers: These difficulties are not accidental or temporary. They are the manifestations of an irresistible evolution, which eventually will burst the bonds of the existing *régime*, and will produce of necessity a different form of production. In this the indefinite development of productive power will no longer be dependent upon capital, but will be desired in itself as a means of securing an ever more abundant satisfaction of the wants of the producing community. What shape this new system shall take Marx does not say. Nor indeed is there occasion to borrow trouble on this score. The development of the immanent social ideas takes place independently of the consciousness or will of the individual. Marx believes, to be sure, that the consummation will not be reached without revolutionary means. There will be a conflict, man to man. But such incidents cannot affect the direction or the end of the process of evolution. Marx simply deigns to give no answer to the every-day economist who is so weak-minded as to fear that the conflict might lead to anarchy, to reaction, to a collapse of civilization.

These views of Marx's are closely connected with his materialistic conception of history. The political constitution of the state, and indeed every phase of social life, are believed by him to depend on the economic system. It is not the state which determines the economic system. The reverse is the case. The state hitherto has been simply the organization of the class rule of the time being. If one class succeeds another as the dominant one,—as the middle class of modern times has taken the place of feudal nobility,—a corresponding change takes place spontaneously in political forms; and the whole intellectual life of society takes a different stamp. An end to this process will not be reached until the proletariat gains its victory. Then every form of class rule will cease, and the historic part which the State has hitherto played will be set aside. It is not to be denied that the division of economic power and the organization of the State are closely connected in history. Nevertheless, Marx's view is as one-sided as that which supposes the individual to be influenced in his economic dealings solely by egoistic motives, and disregards all other motives and passions.

Value, again, according to Marx, is a conception which lies beneath the surface of the phenomena, and controls the process of production even in its present form, even though it does not appear approximately in visible experience, nor emerge in the every-day consciousness of the productive agents. Marx's "value" is of his own creation, and is by no means coextensive with value as psychologically conceived. We say that a thing has value when it is useful, and at the same time cannot be secured without some difficulty, some sacrifice, some exertion. We measure value according to the degree of this difficulty of attainment. The inconvenience or discomfort of overcoming the difficulty of attainment can at the most equal, but can never exceed, the pleasures derived from the possession of a commodity, supposing, of course, that it is a question of its fresh acquisition. Now, beyond doubt, the labor necessary for producing a commodity is an important element, often the most important element, in its difficulty of attainment. But it is not the only element. Even setting aside those cases (of no great practical importance) in which there is a natural scarcity not to be overcome by labor, the conditions of private property in many cases create an artificial scarcity, so to speak, for such persons as neither possess the commodities nor have the means for producing them. Thus the price of commodities goes beyond their cost price, in consequence of the ownership of the means of production by a comparatively small number of persons, whose competition does not go to the point of preventing them from securing a return on their capital.

So far as the individual is concerned, it makes no difference in the production of commodities whether their difficulty of attainment arises from a needed exertion of labor or from the conditions of private property. But, from the point of view of the community, these two fundamental causes of value are by no means the same. From this point of view, labor alone is an absolute objective sacrifice, in return for which an objective equivalent appears for the community in the commodities produced. But the subjective causes of value which arise from the conditions of property, while they inure to the advantage of some and the disadvantage of others, bring for the community neither an increase in its sacrifices nor an increase in its objective possessions. When the owner of a spring of water, by virtue of his right of property, sells the water to a thirsty soul for a price, the water, doubtless, has value; but the buyer has lost in value as much as the seller has gained. An objective new commodity has not been created; for the buyer would have quenched his thirst even if the spring had been free for all. Considerations of this sort justify the proposition that, for the community,

labor, and in fact socially necessary labor, as conceived by Marx, is the basis of value. Value in this sense, or social value as we may call it, is, then, a conception which we deduce from the proximate phenomena. But it is by no means, as Marx assumes, a conception which controls and determines the empirical forms of value. Marx's conception of value and of surplus value was a convenient introduction for his analysis of capitalistic production. It enabled him to make the analysis neatly, in a mathematical sense, and so was peculiarly effective for his practical purposes. But the facts of social life cannot be reduced to such a simple scheme; while the immanent social laws which Marx assumes to find in them are no more than hypothetical abstractions.

I conceive that political economy is an empirical science. The economic dealings of the conscious individual are its fundamental facts. From these, economic phenomena as they appear in the mass are to be explained. There being a large number of individual actions, the effects of some may serve to offset the effects of others. But other effects, again, are intensified, and bring about general phenomena, which, for the very reason that they are made up of a large number of individual actions, are subject to no rapid changes, and so possess a good degree of stability. Thus they become in a way independent of the will of the individual: they may even appear as forces controlling the action of the individual. In the flow of time they show such constancy that we may speak of "economic laws." This expression, while in strictness only figurative, is not open to objection, provided that it be not forgotten that the observed uniformities do not rest, like the law of gravitation, on some external force controlling the individual phenomena, but are simply the results of a number of individual acts, which, while doubtless reacting one on the other, yet are each independent. This is more especially the case with the laws of value and price. Normal market value comes into existence through individual valuations which mutually affect each other. If every producer adds to his cost price a supplement proportionate to his capital, he does so not because misled by some subjective illusion, but because he thereby does his share in bringing about the actual division of the produce between laborers and capitalists. It is wrong to say that, in this process of adding the supplement, the capitalists always lose as buyers what they gain as sellers, and so as a body really gain nothing. For the laborers, it must not be forgotten, are in no position to add such an excess. Their wages are determined simply by the cost of production of their labor power. Thus we may reach, by the most trivial empirical means, and without any reference to immanent ideas or laws of evolution, the same conclusion as Marx's law of surplus value. It must depend upon the individual's temperament, and on his social point of view, whether he finds in this result a wonderful harmony of interests or a conflict which must lead to social revolution.

W. Lexis.