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## **Ricardo's Value Theory Re-examined: Marx VS. Ricardo on Value\***

### INTRODUCTION

Modern civil society, or capitalist society, produces wealth on the one hand and poverty on the other. Both were represented by political economists and socialists. In his *System of Economic Contradictions, or Philosophy of Poverty* (1846; hereafter SYSTEM), Proudhon declared that he had transcended both political economy and the socialist critique, by using a dialectical method. He wrote to Marx asking for a "stern criticism", probably expecting praise. Marx answered him in his *Poverty of Philosophy* (1847; hereafter POVERTY) by expounding the following three propositions, contrasting Ricardo, Bray and Hegel: 1. Political economists understand capitalist society as eternal by defining economic categories ahistorically. 2. Proudhon attempted to transcend this methodological insufficiency of the economists, including Ricardo. 3. However, Proudhon made the same mistake as the economists and made economic categories eternal ideas. The quotation below summarises POVERTY: "I showed there ... how in this roundabout way he [Proudhon] arrived once more at the standpoint of bourgeois economy."<sup>1</sup>

The point here is that in POVERTY the political economists are criticised by Marx. The methodological inadequacy of the political economists, i.e. the unhistorical understanding of economic categories, is only the starting-point for both Proudhon and Marx. Marx's methodological and theoretical critique of Proudhon is nothing but his methodological and theoretical critique of the political economists, including Ricardo. This is the reason why Marx states: "The decisive points of our view [his critique of political economy] were first scientifically, although only polemically, indicated in my work published in 1847 and directed against Proudhon [POVERTY]"<sup>2</sup>. Consequently, POVERTY represents Marx's methodological and theoretical critique of Ricardo.

In my latest paper<sup>3</sup>, I have already examined Marx's methodological critique of Ricardo in POVERTY, which is best summarised in his phrase: "Economic categories are only the theoretical expressions, the abstractions of the social relations of production" (Marx-Engels Collected Works, Vol.6, p.165; hereafter cited as 6 MEC 165). To put it more concretely, he explained "the genesis" of the economic categories by deriving them from the following: the historical character of the capitalist relations which they express, and the intrinsic connection between capitalist relations themselves.

This paper is devoted to investigating Marx's theoretical critique of political economy in POVERTY with regard to methodology in two respects: the historical character and the intrinsic connection. In other words, we examine here Marx's critique of Ricardo's value

\* Reprint from: *Journal of Social Sciences*. Takushoku University, vol. 1, No. 3, January 1994, pp. 147-181.

<sup>1</sup> "On Proudhon" (Marx's letter to J. B. Schweitzer dated 24 January 1865), in: KARL MARX AND FREDERICK ENGELS Selected Works in three volumes, Vol. 2, p. 26.

<sup>2</sup> The Preface to A Critique of Political Economy (1859), in: David McLellan, Marx-Engels Selected Writings, p. 390.

<sup>3</sup> Takahisa Oishi, Ricardo's Method Re-examined", *The Review of Takushoku University*, No. 203, 1993.

and price theory in Chapter 1 of *POVERTY* as a notable instance of his methodological critique of the political economists.

Over the past decades a considerable number of studies have focused on the formation of Marx's thought, including *POVERTY*. Surprisingly, however, few have clarified the decisive points of our view' in *POVERTY*, or of Marx's methodological and substantive critique of Ricardo's value theory<sup>4</sup>, for the following reasons:

- 1) Marx's dialectical method in his "critique of political economy" has been misunderstood as the so-called "materialist conception of history";
- 2) Little attention has been paid to authorial purpose in Proudhon's *SYSTEM* and Marx's *POVERTY*;

3) The two chapters of *POVERTY* have been read separately;

4) Marx's value theory has been misunderstood as very similar to Ricardo's.

2) and 3) have already been examined in my latest paper. 1) is too complex to be treated here in detail. Therefore, 4) will be treated only summarily.

It is true that Marx stresses the scientific aspect of Ricardo's value theory, and his own value theory is in the Ricardian line. For example, in his Manuscripts of 1861-63 Marx writes: "He [Ricardo] begins with the determination of the magnitude of the value of the commodity by labour time and then examines whether the other economic relations and categories contradict this determination of value or to what extent they modify it. The historical justification of this method of procedure, its scientific necessity in the history of economics, are evident at first sight,..."<sup>5</sup>

<sup>4</sup> Assertions concerning the formation of Marx's value theory fall into the following four types:

1) Continuity Type: Marx retained his critical views on Ricardo's value theory from beginning to end:

- a. The early Marx's "estranged labour" is not an economic theory as such but the basic philosophy which produced his theories later: See Shiro Sugihara, *Mill and Marx* (Kyoto, 1973).
- b. The early Marx's "estranged labour" is the "general essence (Wesen) of private property" obtained through a twofold reductive analysis of the immediate process of capitalist production, from which other economic categories are developed or explained: See Takahisa Oishi, *Individual, Social and Common Property* in: *The Review of Takushoku University*, No.199, 1993.

2) Rupture Type: Marx changed his views on Ricardo's labour theory of value in his intellectual development: Soviet Marxists and their Western followers assert that the early Marx "denied" or "negated" the labour theory of value in 1844, but "accepted" or "affirmed" it in later works, e.g. *The German Ideology* (1845) or *POVERTY*.

c. Marx "accepted" or "affirmed" the Ricardian theory of value in *POVERTY*, but no more and no less than that: This type, e.g. Ernest Mandel, in *The Formation of the Economic Thought of Karl Marx* (*Monthly Review*, 1971), asserts that Marx became a Ricardian in *POVERTY* (p.49). In other words, Marx was not Marx yet, and the work belongs to the prehistory in his intellectual development. However, Mandel thinks that he has clarified Marx's development as such.

d. Marx not only "accepted" or "affirmed" Ricardo's value theory but also criticised it on some points in *POVERTY*, because of "the materialist conception of history": e.g. D. I. Rosenberg, *Die Entwicklung der ökonomischen Lehre von Marx und Engels in den vierziger Jahren des 19. Jahrhunderts* (Berlin, 1958).

Evidently type d. is superior to type c. insofar as it refers to Marx's criticism of Ricardo in *POVERTY*; but neither of these writers grasps the purpose of *POVERTY*. It is not Proudhon but Ricardo whom Marx is really criticising. Added to this, neither of them clarifies the interconnection between "the materialist conception of history" and the affirmation of Ricardo's labour theory of value. They prove nothing in fact.

The basis of types c. and d. has already been thoroughly criticised in my *-Ricardo's Method Re-examined-*, which clarifies Marx's methodological critique of Ricardo in *POVERTY*. The point here is the differentia specifica of Marx's value theory. Marx's dialectical method, thus his whole system, has been poorly understood so far.

<sup>5</sup> *MEGA*<sup>2</sup> II/3.3, S. 816. *Theories of Surplus Value, Part II*, p. 165. See also Footnote 33, 34 and 35 of

However, it should not be overlooked that the sentence is followed by: "but so is, at the same time, its scientific insufficiency". For Marx pointing out the scientific aspect of Ricardo's analysis does not contradict criticising its insufficiency. Actually, these are both sides of Marx's "critique".

A careful investigation of POVERTY reveals that this work is not an exception but a good example of his critique. In POVERTY Marx, on the one hand, contrasts the scientific aspect of Ricardo's value theory favourably with Proudhon's; but, on the other hand, Marx also criticises the scientific inadequacy of Ricardo's value theory only implicitly, as the work is not directed against Ricardo but Proudhon.

Firstly: Ricardo's value theory is criticised through Marx's explanation of the genesis of exchange-value. The political economists, including Ricardo, are concerned solely with the quantitative analysis of exchange-value but not with the genesis of the category. Consequently, they do not fully grasp the historical character of exchange-value and the intrinsic connection between value and price. Proudhon understood this methodological inadequacy of Ricardo's analysis very well and attempted to transcend it in his SYSTEM by explaining the genesis of economic categories, which was rated highly by Marx in his POVERTY (see, e.g. 6 MEC 111). However, Proudhon's "historical and descriptive method" (6 MEC 113) did not pursue the real movement of capitalist production. He explained the genesis of the economic categories only by inventing a person who proposed to establish the relation in question to "other men, his collaborators in various functions" (6 MEC 112), like a "deus ex machina" (6 MEC 198). Proudhon, as Marx said, "answers the problem by formulating the same problem and adding an extra syllable" (6 MEC 199), therefore explaining nothing. In this sense, Marx's explanation of the genesis of exchange-value represents his critique of Ricardo's value theory in the following two respects: the historical character of capitalist relations, and the intrinsic connection between them.

Secondly: Ricardo's value theory is criticised through Marx's rereading or reinterpretation. Ricardo's value theory, summarised and contrasted by Marx with Proudhon's, is not Ricardo's original theory but one reread and reinterpreted by Marx. To overlook this rereading or reinterpretation is to miss the *differentia specifica* of Marx's value theory, i.e. of Marx's critical analysis of commodities as a (social) production relation.

Consequently, it is very important for us to separate Marx's value theory presented by Marx as Ricardo's, from Ricardo's value theory as such.

The *differentia specifica* of Marx's critical analysis of the commodity must be kept in mind. For this purpose, Chapter II summarises Ricardo's original value theory. Chapters III and IV analyse Marx's indirect critique of Ricardo's value in POVERTY in two respects: historical character, and intrinsic connection.

## RICARDO'S VALUE THEORY

### *Ricardo's Conception of Value*

Firstly: we note that Marx's "critique of political economy" is a critique of the economic categories used by political economists. Thus Ricardo's "value" was naturally criticised by Marx in Capital. In this chapter we summarise Ricardo's value theory before we examine Marx's indirect critique of it in chapter 1 of POVERTY.

Secondly: we note that Ricardo's subject for analysis is "value", as his first chapter is "On

Value", while Marx opens *Capital* with "The Commodity". For Marx economic categories are theoretical expressions of capitalist relations of production and commerce and are to be presented genetically. The commodity was chosen by Marx as the starting-point of his "genetic presentation", because it is the simplest "social form in which the labour-product is presented in contemporary society"<sup>6</sup>. On the other hand, Ricardo's presentation reveals that he did not share "genetic presentation" with Marx.

Thirdly: Ricardo distinguishes "relative value" from "absolute value", i.e. the value of a commodity measured by "an invariable measure"<sup>7</sup>. Actually, he had been in search of such a measure in vain until he died<sup>8</sup>. Thus, by value he meant "relative value" or "exchangeable value", i.e. "the quantity of any other commodity for which it will exchange", while Marx distinguishes between value and exchange-value. The former (value) is "something common to them [commodities] which is wholly independent 'of their usevalue'<sup>9</sup>, while the latter (exchange-value) is the "necessary mode of expression or form of appearance of value"<sup>10</sup>.

Fourthly: the relationship between "natural price" and "market price" in Ricardo's value theory should be noted. He admits that there is nothing which is not subject to the fluctuation of prices and that "it is only in consequence of such variations that capital is apportioned precisely, in the requisite abundance and no more, to the production of the different commodities which happen to be in demand"<sup>11</sup>. Philosophically, this indicates that Ricardo understood the exchange of commodities as the capitalist form of the social distribution of labour. However, on the other hand, he says that "the deviations of the actual or market price of commodities from ... natural price"<sup>12</sup> are "accidental and temporary". In other words, only market price is subject to the accidental and temporary variations of price, and natural price is not affected by competition, i.e. supply and demand. This means, theoretically speaking, that he failed to grasp the historical character of the capitalist form of the social distribution of labour.

#### *Ricardo's Conception of 'Cost of Production'*

Fifthly: we note that Ricardo's "value" includes "profits", in particular "average profit". As his "value" is "relative value" or "exchangeable value", Ricardo determines "value" through "natural price" or "cost, including profits". Ricardo asserts: To think that it is a part of my doctrine that the cost and value of a thing should be

<sup>6</sup> Marx's Notes on Adolph Wagner, in: Terrell Carver, KARL MARX: Texts on Method (Basil Blackwell, 1975), p. 198. It was not until Grundrisse (1857-8) that Marx began his presentation with the commodity. Before then, he had a plan to begin with "Value" (See MEGA<sup>2</sup> II/1.2, S. 740. Grundrisse, Pelican ed., p. 881). It should be noted, however, the "value" was not value as "exchangevalue" but rather the unity of use-value and exchangevalue (See MEGA<sup>2</sup> II/1.1, S. 190. Grundrisse, Pelican ed., p. 267).

<sup>7</sup> Works of David Ricardo, Volume 1, Chapter 1, §4.

<sup>8</sup> See his "Absolute Value and Exchangeable Value", in: Works of David Ricardo, Vol. 4, pp. 358-412. Marx criticises Ricardo's vain attempt as a necessary result of the methodological inadequacy of his analysis. According to Marx, Ricardo's "relative value" has a twofold meaning: "exchangeable value as determined by labour time" and "exchangeable value of a commodity in terms of the usevalue of another". Ricardo's "absolute value" is nothing but "relative value" in the first sense. The inadequacy of Ricardo's analysis is that "he does not examine the form of value -- the particular form which labour assumes as the (social) substance of value" (MEGA<sup>2</sup>, II/3.3, S. 815-816. Theories of Surplus Value, Part II, p. 164). See also n. 23 below.

<sup>9</sup> Marx's Notes on Adolph Wagner, op. cit. p. 183.

<sup>10</sup> Ibid., p. 183.

<sup>11</sup> Works of David Ricardo, Volume 1, p. 88.

<sup>12</sup> Ibid., p. 88.

the same; it is, if he means by cost, "cost of production" including profits."<sup>13</sup>

The point here is that Ricardo does not share Marx's genetic presentation of economic categories. In Ricardo's presentation, "price" - "cost of production" - is not developed or distinguished from "value". On the contrary, his "value" is a sort of "price", i.e. "natural price" or "central price". This means that in the determination of "value", the very starting-point of his presentation, Ricardo already presupposes "average profit", which has not been explained yet. This makes Ricardo's presentation a tautology.

Lastly: we should note the relationship between "value", "quantity of labour" and "cost of production" in Ricardo's theory. According to him, there are two causes or laws which determine "how much of one shall be given in exchange for another"<sup>14</sup>: the comparative quantity of labour expended, and an alteration of wages without any variation in the quantity of labour, although the latter he said "could not exceed 6 or 7 per cent"<sup>15</sup>. Ricardo never said that his "cost, including profits" was equal to the "labour" employed in production. Confusing value with price, Ricardo said that the "labour" employed was almost in proportion to the "cost, including profits". In his words in the Notes on Malthus (1820): "Mr. Malthus accuses me of confounding the very important distinction between cost and value. If by cost, Mr. Malthus means the wages paid for labour, I do not confound cost and value, because I do not say that a commodity the labour on which cost a £1,000, will therefore sell for £1,000; it may sell for £1,000, £1,200, or £1,500, - but I say it will sell for the same as another commodity the labour on which also cost £1,000; that is to say, that commodities will be valuable in proportion to the quantity of labour expended on them (italics added)."<sup>16</sup>

As is shown by this quotation, Ricardo does not equate "labour" with "cost, including profits". For Ricardo, average profit affects all commodities equally and does not cause any change in the exchange-value of the commodities. On the other hand, by "the quantity of labour" Ricardo means the sum total of wages. Thus "in proportion to -cost, including profits" is almost equivalent to "in proportion to wages", in his value theory. He prefers "the quantity of labour bestowed on them" to "the sum total of wages" for the following two reasons: 1) Labour is the original purchase money. 2) In order to distinguish "the sum total of wages" from "the alteration in wages" "without any variation in the quantity of labour"<sup>17</sup>. Consequently, Ricardo's value theory can be schematised as follows:

value = exchange-value = relative value

# cost of production = the average wage and profit

\* the comparative quantity of labour bestowed on the product

[and # denote \* in proportion to" and "almost in proportion to".]

In the following two chapters, I clarify Marx's implicit criticism of Ricardo's value theory in chapter 1 of his POVERTY historically and intrinsically.

<sup>13</sup> Ibid., p. 47.

<sup>14</sup> Ibid., p. 12.

<sup>15</sup> Ibid., p. 36.

<sup>16</sup> Works of David Ricardo, Vol. 2, p. 34.

<sup>17</sup> Works of David Ricardo, Vol. 1, p.38. Ricardo agrees to the following remark by Smith: "The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it." (Wealth of Nations, Modern Library, p.30. Works of David Ricardo, Vol. 4, p. 397)

## VALUE AS A CAPITALIST RELATION

### *The Genesis of Exchange-Value*

In *POVERTY* Marx explains the genesis of exchange-value from the "historical and economic point of view" (6 MEC 184). He explains "the process by which use-value is transformed into exchange-value" (6 MEC 111) by pursuing "the historical movement of production relations" (6 MEC 162).

Initially, Marx distinguishes three stages in the history of exchange:

- 1) "There was a time, as in the Middle Ages, when only the superfluous, the excess of production over consumption, was exchanged";
- 2) "There was again a time, when not only the superfluous, but all products, all industrial existence, had passed into commerce, when the whole of production depends on exchange";
- 3) "Finally, there came a time when everything that men had considered as inalienable became an object of exchange, of traffic and could be alienable" (6 MEC 113). At this stage, "the very things which till then had been communicated, but never exchanged; given, but never sold; acquired, but never bought - virtue, love, conviction, knowledge, conscience, etc.... finally passed into commerce" (6 MEC 113).

According to Marx, it is only after stage 2) that, on one hand, supply and demand meet only through exchange competition - after the fact, and that, on the other, the concept "cost of production" begins to function as the regulator of the exchange-value of commodities.

"Competition among suppliers and among consumers forms a necessary part of the struggle between buyers and sellers, of which marketable value is the result." (6 MEC 119)

"In supply and demand,... we find, on the one hand, a product which has cost marketable values, and the need to sell; on the other, means which have cost marketable values, and the desire to buy." (6 MEC 118)

"As a category,... exchange-value leads an antediluvian existence"<sup>18</sup>, but it has been similar to price in stage 1) However, value, as is distinguished from price, can be conceptualised only under capitalist conditions, in which products are produced as commodities. Thus the category "makes a historic appearance in its full intensity only in the most developed condition of society"<sup>19</sup>. In his phrase in *POVERTY*, exchange-value corresponds to "large-scale industry" and "free competition".

"After all, the determination of value by labour time - the formula M. Proudhon gives us as the regenerating formula of the future - is therefore merely the scientific expression of the economic relations of present-day society, as was clearly and precisely demonstrated by Ricardo long before M. Proudhon." (6 MEC 138).

As is shown by the quotation above, Ricardo understands exchange value as a historical category; but Marx outdoes him. As we have seen in Chapter II above, Ricardo asserts that the deviation of market price from natural price is only "accidental and temporary". For Marx it is these deviations which determine the exchange-value of commodities as cost of production measured by labour time.

"It is not the sale of a given product at the price of its cost of production that constitutes the 'proportional relation' of supply to demand, or the proportional quota of this product relative to the sum total of production; it is the variations in demand and supply that show the producer what amount of a given commodity he must produce in order to receive at least the cost of production in exchange. And as these variations are continually occurring,

<sup>18</sup> Grundrisse, Pelican ed., p. 101.

<sup>19</sup> *Ibid.*, p. 103.

there is also a continual movement of withdrawal and application of capital in the different branches of industry." (6 MEC 134)

"Competition implements the law according to which the relative value of a product is determined by the labour time needed to produce it." (6 MEC 135)

Only those who missed Marx's critique of Ricardo's value theory in chapter 1 of *Capital* can neglect the meaning of these quotations. Marx's cost of production in *POVERTY* will be investigated in section 3 of this chapter. Before we move on, let us quote a passage from Marx's *Grundrisse*, the *Manuscripts of 1857-58*, in order to confirm that for Marx determining value by "cost of production" is the same as supply and demand:

"The value (the real exchange-value) of all commodities (labour power included) is determined by their cost of production, in other words by the labour time required to produce them."<sup>20</sup>

"Similarly, the labour which the worker sells as a usevalue to capital is, for the worker, his exchange value, which he wants to realise, but which is already determined prior to this act of exchange and presupposed to it as a condition, and is determined like the value of every other commodity by supply and demand; or, in general, which is our concern here, by the cost of production (*italics mine*)."<sup>21</sup>

To comprehend the historical character of the commodity is to clarify the historical conditions which make products commodities by comparing commodities with articles of tribute, gifts and simple commodities. Marx emphasises that after the second stage of exchange, fluctuation is a necessary element in the social distribution of labour in capitalist conditions. For example:

"Fuit Troja (Troy is no more). This correct proportion between supply and demand, which is beginning once more to be the object of so many wishes, ceased long ago to exist. It has passed into the stage of senility. It was possible only at a time when the means of production were limited, when exchange took place within very restricted bounds. With the birth of large-scale industry this correct proportion had to come to an end, and production is inevitably compelled to pass in continuous succession through vicissitudes of prosperity, depression, crisis, stagnation, renewed prosperity, and so on." (6 MEC 137)

*Capitalist Society as a Caricature of the True Community*

It seems to me clear that Marx in *POVERTY* understands exchange of commodities as the capitalist form of social metabolism. This is supported by Marx's view of the social division of labour.

Neither Proudhon nor Ricardo distinguishes the division of labour inside society from that in the modern workshop. It is Marx who, for the first time, distinguished between two kinds of division of labour. However, the reason for this distinction has still not been appreciated. It concerns Marx's method for understanding capitalist relations as a historical form of metabolism between men, and between men and nature. Let us devote a little space to discussing the matter. In Chapter 2 of *POVERTY* Marx writes: "While inside the modern workshop the division of labour is meticulously regulated by the authority of the employer, modern society has no other rule, no other authority for the distribution of labour than free competition." (6 MEC 184; *italics added*) Through the contrast of the two authorities, Marx shows that it is free competition that distributes labour socially.

Moreover, it is Marx who calls "the process of exchange" "a process of social metabo-

<sup>20</sup> *Ibid.*, pp. 136-137.

<sup>21</sup> *Ibid.*, p. 306.

lism"<sup>22</sup>. The core of "Chapter I §4 THE FETISHISM OF THE COMMODITY AND ITS SECRET" of *Capital* is to clarify that "the labour of the private individual manifests itself as an element of the total labour of society only through the relations which the act of exchange establishes between the products, and, through their mediation, between the producers".

All these show that the exchange-value of products is the capitalist form of social metabolism, i.e. of the social distribution of labour. The movement or process through which exchange-value is regulated is the capitalist form of the social distribution of labour. Value, as a content distinguishable from exchange-value, is only the capitalist form of social labour, i.e. of the social character of human labour. His letter to Kugelmann dated 11 July 1868 clarifies this point: "And the form in which this proportional distribution of labour asserts itself in a state of society in which the interconnection of social labour expresses itself as the private exchange of the individual products of labour, is precisely the exchange-value of these products." (43 MEC 68; italics added)<sup>23</sup>

Let us now return to the point. Marx, like Ricardo and Smith, understands that labour, products and capital are socially distributed through fluctuations in price. In other words, all three understand exchange as the capitalist form of the social distribution of labour. Smith knew very well that natural price - average wage, profit and rent - is the central price in the fluctuation, but he did not explain it in terms of labour. On the other hand, theoretically speaking, Ricardo was inferior to Smith in making fluctuation accidental for natural price. He wrote that "the variation of the actual or market price of commodities from ... natural price" is "accidental and temporary". However, Marx understands that it is these variations which make the cost of production the regulator of exchange value. Thus Marx makes fluctuating movement an element of the law of value: labour time and free competition. In this sense, it is only Marx who comprehends this law as a necessary law of capital.

"If M. Proudhon admits that the value of products is determined by labour time, he should equally admit that it is the fluctuating movement alone that makes labour time the measure of value. There is no ready-constituted -proportional relation" [between supply and demand], but only a constituting movement. Competition implements the law according to which the relative value of a product is determined by the labour time needed to produce it." (6 MEC 135)

Theoretically speaking, Ricardo determines exchange-value by a single element: cost of production. On the other hand, Marx grasps exchange value as a capitalist production relation consisting of the following two elements: cost of production and free competition. In order to demonstrate that Proudhon has not transcended political economy, Marx supports the scientific character of Ricardo's value theory against Proudhon by saying: "Ricardo shows us the real movement of bourgeois production which constitutes value" (6 MEC

<sup>22</sup> *Capital*, Vol. I, Pelican ed., p. 198. The translator's note on this term is not correct and should be moved to page 133.

<sup>23</sup> See Marx's Notes on Adolph Wagner, op. cit., p. 207. In *Capital*, Vol. I, Marx writes: "Since the producers do not come into social contact until they exchange the products of their labour, the specific social characteristics of their private labours appear only within this exchange. In other words, the labour of the private individual manifests itself as an element of the total labour of society only through the relations which the act of exchange establishes between the products, and, through their mediation, between the producers." (p. 165, see also p. 129) For the early Marx's conception of metabolism and exchange-value, see especially 3 MEC 216-217, 298-299. See also Takahisa Oishi, op. cit., pp. 84-85.



123). Though we should note this is not true as a summary of Ricardo's theory. To overlook this is to miss Marx's critique of Ricardo's value theory in POVERTY, or "the decisive points" of his critique of the economic categories in POVERTY.

The most important point to be made here is that each level of analysis of the economic categories clarifies the position of the capitalist relations which they express in the history of social individuals, i.e. in regard to preceding societies and to a higher society.<sup>24</sup> For example, the social distribution of labour through exchange-value indicates, on the one hand, that it is the most developed form that history has ever known, and on the other, that men still have not obtained control over their mutual interactions. It is not producers but their movements that control men. In this twofold sense, capitalist society is "a caricature of the true community"<sup>25</sup>, or "the manifestation of the nature of men, their mutual complementing the result of which is species-life"<sup>26</sup>, truly human relations of production and commerce. Marx's critical analysis of commodities offers insights such as:

"Fuit Troja. This correct proportion between supply and demand,... was possible only at a time when the means of production were limited." (6 MEC 137)

"Thus relative value, measured by labour time, is inevitably the formula of the modern enslavement of the worker, instead of being, as M. Proudhon would have it, the -revolutionary theory" of the emancipation of the proletariat." (6 MEC 125)

"In a future society, in which class antagonism will have ceased, in which there will no longer be any classes, use will no longer be determined by the minimum time of production; but the time of production devoted to an article will be determined by the degree of its social utility." (6 MEC 134)

#### *Cost of Production as Labour Time*

As we have already seen, Ricardo determines exchange-value by "cost, including profits" which consists of average wages and profits. In other words, his cost is "production cost" in *Capital*, Volume 3.<sup>27</sup> Being concerned with relative value only, Ricardo asserts that commodities are exchanged in proportion to their comparative "cost" and almost in proportion to their comparative quantity of labour - wages - expended on them. He states in the Notes on Malthus (1820): "If I had said that the value of commodities was the same thing as the value of the labour expended on them, the remark [Malthus' remark] would have been well founded, but I have said the relative value of commodities is in proportion

<sup>24</sup> Marx's Grundrisse is well-known for "Marx's theory of history", such as "formations which precede capitalist mode of production" (Pelican ed., pp. 161-2). What is important is that Marx's theory of history is grounded in his critical analysis of capitalist relations, or economic categories, e.g. the commodity, money and capital. On the other hand, Marx does not deal with future society in any independent chapter. This is a necessary result of his method. Since society or property relations is only the sum total of the relations of production and commerce, as illustrated in Marx's critique of Proudhon's analysis of "property" (e.g. 38 MEC 99-100 and 6 MEC 197), it is wrong to give future society an independent chapter. This is the reason why Marx writes that Chapter 32 of *Capital*, Vol. 1, "itself is nothing else but a general summary of long expositions previously given in the chapters on capitalist production" (Marx's letter to Mikhailovsky in 1877, in: David McLellan, *Karl Marx Selected Writings*, Oxford, p. 571). To put it the other way round, his views on future society are developed in each section of his analysis of the economic categories.

<sup>25</sup> Notes on James Mill, 3 MEC 217.

<sup>26</sup> *Ibid.*, 3 MEC 217.

<sup>27</sup> "Cost" used by political economists falls into the following three categories in Marx's terminology in *Capital*, Volume 3: 1) value determined by the quantity of labour bestowed on production; 2) "cost price" consisting of raw materials and wages, i.e. the original cost for producers; and 3) "production cost" consisting of the average wage and profit -- the average "price". See n. 32 below.

to the quantity of labour bestowed on them. That value may be double what the labour cost."<sup>28</sup>

On the other hand, Ricardo's theory of value summarised and praised by Marx as "the scientific interpretation of actual economic life" (6 MEC 124) is "the determination of value by labour time" (ibid.). The point here is that Marx equates cost with labour time.

"The determination of value by labour time is, for Ricardo, the law of exchange-value; for M. Proudhon, it is the synthesis of use value and exchange-value." (6 MEC 124)

"...it is the variations in demand and supply that show the producer what amount of a given commodity he must produce in order to receive at least the cost of production in exchange." (6 MEC 134)

There are two points to be made here: Marx's "cost of production" and "labour time" differ from Ricardo's "cost" and "labour". First: Marx's cost of production is determined in the production process before the exchange of commodities, as he writes: "In the course of production, it has been exchanged for all the costs of production, such as raw materials, wages of workers, etc., all of which are marketable values. The product, therefore, represents, in the eyes of the producer, a sum total of marketable values. What he supplies is not only a useful object, but also and above all a marketable value.

As to demand, it will only be effective on condition that it has means of exchange at its disposal. These means are themselves products, marketable values." (6 MEC 118)

It would be clear that Marx's "cost of production" in *POVERTY* differs from Ricardo's "cost, including profits". This means that Marx distinguished his value theory from Proudhon's by identifying it as Ricardo's.<sup>29</sup>

Secondly: As far as I know, Ricardo does not use the term "labour time". Even if he had, it is not the term itself but the method we should note here. As we have already seen, Ricardo's "the quantity of labour" is equal to "a sum total of wages" which the labour cost. It is by no means "labour time" nor "the minimum time it could possibly be produced in" (6 MEC 136).

Historically speaking, it is Hegel who measured labour by time when he distinguished wage labour from slave labour.<sup>30</sup> But this is more noteworthy from the following methodological point of view.

Ricardo's determination of value is nothing but a *petitio principii* (begging the question), because it presupposes those which are to be explained, i.e. average wage and profits, at the very starting-point of his presentation of the economic categories. However, Marx's determination of value makes a good starting-point, because labour time does not presuppose any other category which is to be explained. This leads us to the other aspect of Marx's critique of Ricardo's value theory in *POVERTY*. Before we move on, let us summarise this chapter.

Although Marx identifies his value theory with Ricardo's which he supported against

<sup>28</sup> Works of David Ricardo, Volume 2, p.102.

<sup>29</sup> This is not Marx's misunderstanding but his way of recasting Ricardo's value theory. From the scientific point of view or from the genetic presentation of economic categories, it is in this way that Ricardo's value theory should be interpreted if it is to have a scientific validity.

<sup>30</sup> Comparing the slave and the wage labourer, Hegel writes that the latter sells his labour in terms of time (see his *Philosophy of Right*, p. 67). It seems obvious that Marx uses labour-time with Hegel in mind, when he states: "Thus relative value, measured by labour-time, is inevitably the formula of the modern enslavement of the worker, instead of being, as M. Proudhon would have it, the -revolutionary theory" of the emancipation of the proletariat" (6 MEC 125).

Proudhon's, he also reinterpreted Ricardo's value theory historically in order to grasp the commodity as a capitalist production relation.

## VALUE AS A CAPITALIST PROCESS

### *Value Determination as the Anfang*

In this chapter we are concerned with Marx's critique of Ricardo's value theory from the other aspect, i.e. the intrinsic connection between capitalist relations, or economic categories. Since I have already examined briefly the intrinsic connection between value and rent, and between value and money in my most recent paper, I would like to concentrate on the connection between value and price.

First: we should remember that the real problem for Marx is to explain the origin of exchange-value, i.e. "the process by which use-value is transformed into exchange-value" (6 MEC 111). In other words, why the amount of labour realised in products cannot directly appear as such but has to take the form of the value of the products. It was already clear for Marx in POVERTY that economic categories are to be presented genetically or dialectically, when we read and invert the following criticism of Proudhon's presentation: "Now that he [Proudhon] has to put this dialectics into practice, his reason is in default. M. Proudhon's dialectics runs counter to Hegel's dialectics, and now we have M. Proudhon reduced to saying that the order in which he gives the economic categories is no longer the order in which they engender one another." (6 MEC 169)

Without doubt the scientific aspect of Ricardo's analysis is that he abstracted natural price or cost of production from market price. However, it should also be noted that Ricardo does not share Marx's dialectical method of presentation, i.e. the genetical presentation of economic categories. Therefore it follows that Ricardo and Marx differ on the determination of value.

For Marx the determination of value is the starting-point of his genetic presentation of economic categories. Therefore value should not be determined by any other categories which are to be explained later, e.g. wage, profit or rent. Furthermore, following Hegel, Marx measured the quantity of labour by the labour time. However, this does not necessarily hold true in Ricardo. His labour is not labour time but the sum total of wages. He presupposes average wage and profit, as his illustrations show, in the determination of value, i.e. the very startingpoint of his presentation. He does not and cannot logically distinguish the determination of value by labour from that by "cost, including profits", so his presentation is a tautology. This explains Ricardo's confusion of value with price in his "modification" problem.

### *Transformation of Value into Price*

Ricardo presumes an average wage and average profit in the determination of value. Thus he creates a problem in that labour time does not directly regulate the price of commodities except as a modification of his principle. He says that the following three conditions "introduce another cause, besides the greater or less quantity of labour necessary to produce commodities, for the variations in the relative value -- this cause is the rise or fall in the value of labour"<sup>31</sup>: 1) The unequal composition of "fixed capital" and "circulating capital" between capitals; 2) The unequal durability of "fixed capita"; and 3) The unequal rapidity with which it is returned to its employer.

<sup>31</sup> Works of David Ricardo, Volume 1, p. 30.

Ricardo asserts that under these conditions "a rise in the wages of labour would not equally affect commodities produced" and change their relative value. In other words, he says there are two causes of changes in the relative value of commodities: the comparative amount of labour and an alteration in wages without any variation in the quantity of labour. His real assertion is that the former is the foundation and the latter is "comparatively slight in its effects"<sup>32</sup>. The point is that Ricardo creates this problem (principle modification) in the determination of value.

On the other hand, Marx formulates the problem another way. For Marx the point to be explained - but not the starting-point - is that the price of commodities is determined by the average wage and average profit in the long run in the course of fluctuations in prices, so in his view average wage and profit must be explained first.<sup>33</sup> In the genetic presentation of economic categories, or in order to comprehend capitalist relations scientifically, this problem has no direct relation to value determination, the very starting-point of the presentation. This means that the determination of value as the *Anfang* (beginning) for Marx's presentation differs considerably from that of Ricardo. In his *Results of the Immediate Process of Production* (1864), Marx repeats that the commodity analysed in Chapter 1 of *Capital* is "the individual commodity viewed as an autonomous article"<sup>34</sup> but not the commodity as the product of capital which is to be explained later. This means that in Marx's system commodities are logically determined step by step. Thus value as his *Anfang* is the simplest and most abstract category which does not comprise any of the more complicated and concrete categories.

The most important point to be made here is that exchange-value in *POVERTY* consists of the following elements: cost of production and free competition. "If M. Proudhon admits the value of products is determined by labour time, he should equally admit that is is the fluctuating movement alone that makes labour time the measure of value." (6 MEC 135)

Ricardo negates the effect of the fluctuation in prices on natural price, while J.B. Say negates cost of production in the determination of exchange-value. Marx criticises both and

<sup>32</sup> *Ibid.*, p. 36.

<sup>33</sup> Approaches to the "transformation problem" in the English speaking world seem to me Neo-Ricardian (M. C. Howard and J. E. King, *THE POLITICAL ECONOMY OF MARX*, Longman, Chapter 8) and are off Marx's dialectical method, i.e. the genetic presentation of economic categories.

<sup>34</sup> Marx writes in the *Results of the Immediate Process of Production* that the value of a commodity as the result of capital cannot be measured, because "The labour expended on each commodity can no longer be calculated -- except as an average, i.e. an ideal estimate... This labour, then, is reckoned ideally as an aliquot part of the total labour expended on it (see Appendix to *Capital*, Vol. 1, p. 953, 954, 955, 966 and 969). Similarly, "the labour-time ... socially necessary" in Chapter 1 of *Capital* cannot be measured because the exact "socially necessary" time is not clear before the process of exchange. In Marx's phrase in *A Critique of Political Economy* (1859), "it exists only potentially in commodities" or is "an emerging result (*werdendes Resultat*)" (*Marx-Engels Werke*, Vol. 13, S. 312). This concept is the determination of the individual commodity "only as an average sample of its kind" (*Capital*, Vol. 1, p. 130). It is only the starting-point in his presentation and is demonstrated through his analysis of the value form, or exchange-value. As Marx's warns in his *i*, in his "theoretical method, too, the subject, society, must always be kept in mind as the presupposition" (p. 102). The nub is to grasp capitalist relations of production and commerce as a historical form of metabolism between man and nature, and between men. What Marx clarifies is the specific social character of the products of the labour of private individuals who work independently of each other. With regard to his concept "value", it is merely the *Anfang* in order to avoid tautology. Engels' view on value expounded in the Appendix to *Capital*, Vol. 3 is quite wrong as an explanation of Marx's value theory. Marx's *A Critique of Political Economy* (1859) should be more frequently referred to, because "points worked out fully there are only touched upon [in Chapter 1 of *Capital*]" (*Capital*, Vol. 1, p. 89).

determines value by cost of production - labour time and competition. As a matter of fact, this twofold critique can be found in his works from 1844 and has been interpreted as an example of the immaturity of the "early Marx"<sup>35</sup>; but this judgment seems completely wrong. On the contrary, this early critique illustrates the maturity of the young Marx, as the quotations from *Grundrisse* in section A show.

The nub is that individual private labour is not directly but only potentially social. It must become social through universal exchange or the fluctuation in prices, or it will be wasted. Added to this "The continual depreciation of labour is only one side, one consequence of the evaluation of commodities by labour time" (6 MEC 136). If exchange-value is defined by labour time only, it lacks the element which transform value into price or Ricardo's cost of production. It cannot be overemphasised that it is "Competition [which] implements the law according to which the relative value of a product is determined by the labour time needed to produce it." (6 MEC 135) "It is important to emphasise the point that what determines value is not the time taken to produce a thing, but the minimum time it could possibly be produced in, and this minimum is ascertained by competition." (6 MEC 136)<sup>36</sup> We should not overlook that in *Capital*, where value is not defined directly by the two

<sup>35</sup> Marx's critique of Ricardo's value theory in the 1840s consists of the following two aspects: 1) Ricardo's determination of exchange-value by "cost, including profits" and 2) his abstraction away from competition in the determination of exchange-value.

As to 1): Political economists used "cost of production" in the following three ways using Marx's terminology in *Capital*: "value", "cost price" and "production price". Ricardo's "cost, including profits" is "production cost", which consists of the average wage and profit. Thus his determination of value by "cost", not by "labour", should be criticised for making his presentation of economic categories a tautology. This is the point which Marx had been making since his first encounter with Ricardo in 1844, noting the inversion of "value" and "price" in the political economists (see Engels' *Outline of A Critique of Political Economy*, 1843, 3 MEC 427).

As to 2): Ricardo did not take account of the fluctuation in the elements of exchange-value when he said that the "variations of the ... market price of commodities from ... natural price' are only "accidental and temporary". But, as Marx argues in *POVERTY*, it is these variations which determine exchange-value by labour time. Thus, it is quite right for the early Marx to criticise Ricardo for making the law of value an abstract formula (see 3 MEC 270-271), i.e. not a necessary law of capital (see Notes on James Mill, 3 MEC 211), as Marx emphasises in his *Wage Labour and Capital* (1849): "This determination of price by cost of production is not to be understood in the sense of the economists. The economists say that the average price of commodities is equal to the cost of production; that this is a law. The anarchical movement, in which rise is compensated by fall and fall by rise, is regarded by them as chance.... But it is solely ... in the course of these fluctuations that prices are determined by the cost of production." (9 MEC 208, see also 6 MEC 415)

The point is that this is the cause of the difference between Ricardo's "the quantity of labour bestowed on production" and Marx's "the labour time ... socially necessary" and is closely connected with the social character of labour which sets the context of the value of the commodity. The latter has to derived from the process of exchange. This has been understood, however, as the negation of Ricardo's labour theory of value by commentators, e.g. by Mandel (see p. 41 of his *Formation*).

This comes from their misunderstanding of value and exchange-value in *Capital* and of the texts of the early Marx. It seems very likely that they have never read Hegel, Proudhon or Say, because they do not understand Marx's phrase "abstract law" or his comments on Proudhon and Say, let alone his "critique". The following passage from Marx's Notes on James Mill is only meaningful for those who really understand the confusing of value with price in classical political economy: "How this value is more precisely determined must be described elsewhere, as also how it becomes price." (3 MEC 219; italics added)

<sup>36</sup> On Marx's proposition "The natural price of labour is no other than the minimum wage" (6 MEC 125), Engels notes in the German edition of *POVERTY* (1885) that: "In *Capital*, Marx has put the above thesis right". However, this seems to be incorrect. "Natural price", in contrast with market price, is the "average" but also the "lowest which can be taken ... for any considerable time together" (Smith's *Wealth of Nations*, Modern Library, p. 61).

elements noted above, value is still defined by "the labour time which is necessary on an average, or in other words is socially necessary"<sup>37</sup>, which presumes this context - cost of production and competition.

We have been discussing how Ricardo's "cost" - average wage and average profit - differs from Marx's "cost of production" - minimum labour time -- and have explained that this is a necessary result of the difference between their methods. Ricardo's cost of production is reread or recast by Marx into value as *Anfang*: the principle and starting point of his genetic presentation. Consequently, we should no longer interpret Marx's value theories as similar to Ricardo's. Ricardo's *Principle of Political Economy and Taxation* (first published in 1817) opens with: "The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production ..."<sup>38</sup> However similar it sounds to that of Marx, they have actually little in common.

### CONCLUSION

Ricardo's political economy is the best of the classical political economy, but scientifically insufficient. This is because of his analytical method. He analysed capitalist relations of production and commerce, and discovered determinant and abstract categories such as value, wage, profit and rent. However, Ricardo's method is inadequate for comprehending historical entities, such as capitalist society as the sum total of capitalist relations of production.

First of all, Ricardo does not grasp the historical character of capitalist relations. His analytical method cannot clarify the historical conditions which give capitalist form to the relations of production and commerce.

Secondly, Ricardo cannot comprehend the intrinsic connections amongst capitalist relations. Capitalist relations, coexisting and supporting one another, form the structure of capitalist society, but Ricardo's method cannot display the structure.

Marx uses a dialectical method in order to transcend those inadequacies in his presentation of economic categories. He pursues the real movement of production and consumption and defines those categories as theoretical reflections of the historical character of capitalist relations. In other words, he explains the genesis of economic categories one by one. Marx's explanation of exchange value represents a radical critique of Ricardo's value theory.

From Marx's point of view in *POVERTY*, Ricardo the political economist is to be criticised because he made capitalist society eternal and the only possible form of the metabolism between men and nature. Ricardo did not assert this directly, rather he said so by understanding economic categories as ahistorical. Thus he did not grasp the historical character of capitalist relations nor the intrinsic connections amongst them. My investigation of Marx's critique of Ricardo's value theory in *POVERTY* has led to the following conclusions:

First, the category "exchange-value" expresses the capitalist form of the social distribution of products, thus of labour. Irrespective of its form, society is the product of man's inter-

<sup>37</sup> *Capital*, Volume 1, Pelican ed., p.129. It is only in *Capital*, Vol. 3, that the social use-value of commodities is realised and the quantitatively specific social need for each particular kind of product is satisfied (Pelican ed., pp. 773-774).

<sup>38</sup> *Works of David Ricardo*, Volume 1, p.11.

action with man and the organisation of the metabolism between men, and between men and nature.

Secondly, Ricardo, like Smith, understands that exchange-value is the capitalist form of the social distribution of capital, commodities and labour. However, theoretically speaking, Ricardo, like Smith, did not grasp the historical character enough. On the one hand, Ricardo dealt with relative (exchange) value and asserted that commodities are exchanged in proportion to their comparative cost of production - average wage and profit - or cost of labour (wages). On the other hand, he excluded the fluctuation in prices from the elements of value. Nevertheless, his analysis provides the starting-point for Marx's critical analysis of commodities. Marx gets to the bottom of the historical character of exchange value. That category corresponds to the stage of large-scale industry and free competition in which supply and demand meet only through the fluctuation in prices in the long run. Thus he understands that labour time and free competition are the necessary elements of exchange value. In short, he defines value by "the minimum (labour) time it could possibly be produced in" (6 MEC 136), i.e. "the labour time ... socially necessary" in Chapter 1 of *Capital*, Volume 1.

Thirdly, Ricardo's value theory is nothing but a tautology. He presupposes average wage and profit in the definition of value: the very starting-point of his presentation. Furthermore, he excludes the fluctuation in prices from his value determination. As a result, his "value" is not the concept from which other categories are developed. Rather prices are to be explained from value, so his "modification problem" follows.

On the other hand, Marx recasts Ricardo's determination of value by cost of production into the *Anfang* of his presentation: Ricardo's cost of production becomes "the minimum (labour) time it [a product] could possibly be produced in" (6 MEC 136), i.e. labour time and free competition. Thus, Ricardo's modification problem is also recast into the transformation of value into price, the terminal- point -- but not the starting-point -- of his presentation of economic categories.

As *POVERTY* is directed against Proudhon, Marx's critique as expounded in this paper is not explicit. But on a careful and thorough investigation of the two chapters of *POVERTY*, it is clear.

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