THE EXPLOITATION THEORY

by

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Compared with Rodbertus’s statement the most important point in Marx’s work is the attempt to *prove* that all value rests on labour

Adam Smith and Ricardo are generally claimed as authorities for this proposition, but on examination we shall find that they virtually did no more than assume it

Adam Smith, indeed, spoke of the equivalence of Value and Trouble, but with him it is merely a general remark, without any claim to scientific exactitude

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BOOK VI
THE EXPLOITATION THEORY

CHAPTER I
HISTORICAL SURVEY

WE come now to that remarkable theory the enunciation of which, if not the most agreeable among the scientific events of our century, certainly promises to be one of the most serious in its consequences. It stood at the cradle of modern Socialism and has grown up along with it; and to-day it forms the theoretical centre around which move the forces of attack and defence in the struggle of organising human society.

This theory has as yet no short distinctive name. If I were to give it one from a characteristic of its chief professors, I should call it the Socialist theory of interest. If I were to try to indicate by the name the theoretic purport of the doctrine itself — which to my mind would be more appropriate, — no name seems more suitable than that of the Exploitation theory. This accordingly is the name I shall use in the sequel. Condensed into a few sentences, the essence of the theory may be provisionally put thus.

All goods that have value are the product of human labour, and indeed, economically considered, are exclusively the product of human labour. The labourers, however, do not retain the whole product which they alone have produced; for the capitalists take advantage of their command over the indispensable means of production, as secured to them by the institution of private property, to secure to themselves a part of the labourers' product. The means of doing so are supplied by the wage contract, in which the labourers are compelled by hunger to sell their labour-power to the capitalists for a part of what they, the labourers, produce, while the remainder of the product falls as profit into the hands of the capitalists, without any exertion on their part. Interest is thus a portion of the product of other people's labour, obtained by exploiting the necessitous condition of the labourer.

The way had been prepared for this doctrine long beforehand; indeed it had become all but inevitable, owing to the peculiar turn taken by the economic doctrine of value since the time of Adam Smith, and particularly since the time of [David] Ricardo. It was taught and believed that the value of all, or at least of by far the greater part of economical goods, is measured by the quantity of labour incorporated in them, and that this labour is the cause and source of the value. This being the case, it was inevitable that, sooner or later, people would begin to ask why the worker should not receive the whole value of which his labour was the cause. And whenever that question was put it was impossible that any other answer could be given, on this reading of the theory of value, than that one class of society, the drone-like capitalists, appropriates to itself a part of the value of the product which the other class, the workers, alone produce.

As we have seen, this answer is not given by the founders of the Labour-value theory, Adam Smith and Ricardo. It was even evaded by some of their first followers, such as Soden and Lotz, who laid great emphasis on the value-creating power of labour, but, in their total conception of economic life, kept close to the footsteps of their master. But this answer was none the less involved in their theory, and it only needed a suitable occasion and a logical disciple to bring it sooner or later to the surface. Thus Adam Smith and Ricardo may be regarded as the involuntary godfathers of the Exploitation theory. They are indeed treated as such by its followers. They, and almost they, alone, are mentioned by even the most pronounced socialists with that respect which is paid to the discoverers of the "true" law of value, and the only reproach made them is that they did not logically follow out their own principles, and so allowed themselves to be prevented from developing the Exploitation theory out of their theory of value.

Any one who cares to hunt up ancient pedigrees of theories might discover in the writers of past centuries many an expression that fits in with the line of thought taken by the Exploitation theory. Not to speak of the canonists, who arrived at the same results more by accident than anything else, I may mention Locke, who on one occasion points very distinctly to labour as the source of all wealth,[1] and at another time speaks of interest as the fruit of the labour of others;[2] James Steuart, who expresses himself less distinctly, but takes the same line; Sonnenfels,[3] who occasionally describes capitalists as a class who do no labour, and thrive by the sweat of the labouring classes; or Büsch, who also — treating indeed only of contract interest — regards it as "a return to property obtained by the industry of others."[4]

These are instances which could very likely be multiplied by careful examination of the older literature. The birth of the Exploitation theory, however, as a conscious and coherent doctrine, must be assigned to a later period.

Two developments preceded and prepared the way for it. First, as mentioned above, it was the development and popularising of the Ricardian theory of value which supplied the scientific soil out of which the Exploitation theory could naturally spring and grow. And, secondly, there was the triumphant spread of capitalist production on a large scale; for this large production, while creating and revealing a wide gulf of opposition between capital and labour, placed in the foremost rank of great social questions the problem of interest as an income obtained without personal labour.

Under those influences the time seems to have become ready for the systematic development of the Exploitation theory about the twentieth year of this century. Among the first to give it explicit statement — in a history of theory I leave out of account the "practical" communists, whose efforts, of course, were based on similar ideas — were Hodgskin in England and Sismondi in France.

Hodgskin's writings — a little known *Popular Political Economy* and an anonymous publication under the significant title "Labour defended against the Claims of Capital"[5] — do not seem to have had any extensive influence. Thus Sismondi becomes all the more important in the development of the theory.

In naming Sismondi as representative of the Exploitation theory, I must do so with a certain reservation. It is that, although his theory contains all the other essential features of that system, he expresses no condemnatory opinion on interest. He is the writer of a transition period. Though really acquiescing in the new theory, he has not yet broken with the old so completely as to accept all the very extreme conclusions of the new position.

For our purpose the book which we have chiefly to consider is his great and influential *Nouveaux Principes d'Economie Politique.*[6] In it Sismondi connects with Adam Smith. He accepts with warm approval (p. 51) Adam Smith's proposition that labour is the sole source of all wealth;[7] complains that the three kinds of income, — rent, profit, and wages — are frequently ascribed to three different sources, land, capital, and labour, while in reality all income springs from labour alone, these three branches being only so many different ways of sharing in the fruits of human labour (p. 85). The labourer, by whose activity all goods are produced, has not been able "in our stage of civilisation" to obtain possession of the means necessary to production. On the one hand, land is generally in the possession of some other person who requires from the labourer a part of the fruit of his labour as compensation for the co-operation of this "productive power." This part forms the land-rent. On the other hand, the productive labourer does not as a rule possess a sufficient stock of the means of subsistence upon which to live during the course of his labour. Nor does he possess the raw materials necessary to production or the often expensive tools and machines. The rich man who has all these things thus obtains a certain command over the labour of the poor man, and, without himself taking part in that labour, he takes away, as compensation for the advantages which he places at the disposal of the poor man, the better part of the fruits of his labour (*la part la plus importante des fruits de son travail*). This share is the profit on capital (pp. 86, 87). Thus, by the arrangements of society, wealth acquires the capacity of reproducing itself by means of the labour of others (p. 82).

But although the labourer produces by his day's labour very much more than the day's needs, yet, after the division with the landowner and the capitalist, there seldom remains to him much more than his absolutely necessary maintenance, and this he receives in the form of wages. The reason for this lies in the dependent position in which the labourer is placed in relation to the undertaker[8] who owns the capital. The labourer's need for maintenance is much more urgent than the undertaker's need for labour. The labourer requires his maintenance in order to live, while the undertaker requires his labour only to make a profit. Thus the transaction turns out almost invariably to the disadvantage of the labourer. He is in nearly all cases obliged to be satisfied with the barest maintenance, while the lion's share in the results of a productivity which is increased by the division of labour falls to the undertaker (p. 91, etc.)

Any one who has followed Sismondi thus far, and has noticed among others the proposition that "the rich spend what the labour of others has produced" (p. 81), must expect that Sismondi would end by condemning interest, and declaring it to be an unjust and extortionate profit. This conclusion, however, Sismondi does not draw, but with a sudden swerve wanders into some obscure and vague observations in favour of interest, and finishes by entirely justifying it. First of all he says of the landowner that, by the original labour of cultivating, or even by occupation of an unowned piece of land, he has earned a right to its rent (p. 110). By analogy he ascribes to the owner of capital a right to its interest, as founded on the "original labour" to which the capital owes its existence (p. 111). Both branches of income, which, as income due to ownership, form a contrast to the income due to labour, he finally manages to commend as having precisely the same origin as the income of labour, except that their origin goes back to another point of time. The labourer earns yearly a new right to income by new labour, while the owner has acquired at an earlier period of time a perpetual right in virtue of an original labour which the yearly labour renders more profitable (p. 112).[9] "Every one," he concludes, "receives his share in the national income only according to the measure of what he himself or his representative has contributed, or contributes, towards its origin." How this statement can be said to agree with the former one, where interest appears as something taken from the fruits of the labour of other people, must remain a mystery.

The conclusions that Sismondi did not venture to draw from his own theory were soon very decidedly drawn by others. Sismondi forms the bridge between Adam Smith and Ricardo on the one side, and the Socialism and Communism that succeeded on the other. The two former had, by their theory of value, given occasion for the appearance of the Exploitation theory, but had in no way themselves developed it. Sismondi has, substantially, all but arrived at this theory, but has not given it any social or political application. After him comes the great mass of Socialism and Communism following the old theory of value into all its theoretical and practical consequences, and coming to the conclusion that interest is plunder, and ought therefore to cease.

It would not be interesting from the point of theory were I to excerpt, from the mass of socialist literature produced in this century, all expressions in which the Exploitation theory is suggested or implied. I should only weary the reader with innumerable parallel passages, scarcely varying in words, and exhibiting in substance a dull monotony; passages, moreover, which for the most part only repeat the cardinal propositions of the Exploitation theory, without adding to its proof more than a few commonplaces and appeals to the authority of Ricardo. In fact the majority of socialists have exercised their intellectual powers, not so much in laying the foundations of their own theory, as in bitterly criticising the theories of their opponents.

Out of the mass of writers with socialist tendencies I content myself therefore with naming a few who have become specially important in the development and spread of this theory.

Among those the author of the *Contradictions Economiques,* P. J. Proudhon, is pre-eminent for honesty of intention and brilliant dialectic; qualities which rendered him the most efficient apostle of the theory in France. As we are more concerned with substance than with form, I shall not give any detailed example of his style, but content myself with condensing his doctrine into a few sentences. It will be seen at once that, with the exception of a few peculiarities of expression, it differs very little from the general scheme of the theory as given at the beginning of this chapter.

At the outset Proudhon takes it for granted that all value is produced by labour. Thus the labourer has a natural claim to the possession of his whole product. In the wage contract, however, he waives this claim in favour of the owner of capital, and gets in return a wage which is less than the product he gives up. Thereby he is defrauded, for he does not know his natural rights, nor the extent of what he gives up, nor yet the meaning of the contract which the owner concludes with him. And thus the capitalist avails himself of error and surprise, if not cunning and fraud (*erreur et surprise si même on ne doit dire dol et fraud*).

So it comes that at the present day the labourer cannot buy his own product. In the market his product costs more than he has received in wage; it costs more by the amount of many profits, which are made possible by the existence of the right of property; and these profits under the most various names, such as profit, interest, rent, hire, tithe, and so on, form just so many tolls (*aubaines*) laid upon labour. For example, what twenty million labourers have produced for a year's wage of twenty milliards of francs is sold for the price (including these profits, and on account of them) of twenty-five milliards. But this is equivalent to saying that the labourers who are compelled to purchase back these same products are forced to pay five for that which they have produced for four; or that in every five days they must go without food for one. Thus interest is an additional tax on labour, a something kept back (*rétenue*) from the wages of labour.[10]

Equal to Proudhon in the purity of his intentions, and far surpassing him in depth of thought and judgment, though certainly behind the impetuous Frenchman in power of statement, is the German Rodbertus.

As regards the history of theory Rodbertus is the weightiest personage we have to mention in this chapter. His scientific importance was long misunderstood, and that, strangely enough, precisely on account of the scientific character of his writings. Not addressing himself, like others, to the people, but restricting himself for the most part to the theoretical investigation of the social problem; moderate and reserved in those practical proposals which, with the great majority, are the chief objects of concern; his reputation for a while lagged behind that of less important writers who accepted his intellectual wares at second hand, and made them acceptable by appealing to popular interests. It is only in recent times that full justice has been done to this most amiable socialist, and that he has been recognised as what he is — the spiritual father of modern scientific Socialism. Instead of fiery attacks and rhetorical antitheses, by which most socialists are fond of drawing a crowd, Rodbertus has left behind him a profound, honestly thought-out theory of the distribution of goods, which, erroneous as it may be in many points, contains enough that is really valuable to ensure its author an abiding rank among the theorists of political economy.

Reserving meanwhile his formulation of the Exploitation theory to return to it later on in detail, I turn to two of his successors, who differ from each other as widely as they differ from their predecessor Rodbertus. One of these is Ferdinand Lassalle, the most eloquent, but, as regards substance, the least original among the leaders of Socialism. I only mention him here because his brilliant eloquence exerted a great influence on the spread of the Exploitation theory; to its theoretical development he contributed almost nothing. His doctrine is substantially that of his predecessors, and I may therefore pass on without reproducing it in quotations or extracts, and merely refer to some of the most characteristic passages in a note.[11]

While Lassalle is an agitator and nothing else, Karl Marx is a theorist, and indeed, after Rodbertus, the most important theorist of Socialism. His doctrine is certainly founded in many respects on the pioneering work of Rodbertus, but it is built up with some originality and a considerable degree of acute logical power into an organic whole. This theory also we shall consider in detail later on.

If the perfecting of the Exploitation theory has been, *par* *excellence,* the work of socialist theorists, the ideas peculiar to it have nevertheless found admittance into other circles, though in different ways and in different degrees. Many adopted the Exploitation theory in its entirety, and, at the most, only refused to acknowledge its last practical consequences. Guth, for example, takes this position.[12] He accepts all the essential propositions of the socialists, and accepts them in their entire extent. Labour is to him the sole source of value. Interest arises from the fact that, in virtue of the unfavourable circumstances of competition, the wages of labour are always less than the product of labour. Indeed Guth does not scruple to introduce the harsh expression *Ausbeutung* for this fact as *terminus technicus.* Finally, however, he draws back from the practical consequences of the doctrine by introducing some saving clauses. "Far be it from us to declare that the *Ausbeutung* of the labourer, which is the source of profit, is unjustifiable from a legal point of view. It rests rather on a free alliance between the employer and the labourer, which takes place under circumstances of the market that are, as a rule, unfavourable to the latter." The sacrifice which the exploited labourer suffers is rather an "advance against replacement." For the increase of capital is always increasing the productivity of labour; consequently the products of labour grow cheaper, the labourer is able to buy more of these products with his wages, and thus his real wages rise. At the same time the labourer's sphere of employment is enlarged "on account of greater demand, and his money wage also rises." Thus the *Ausbeutung* is equivalent to an investment of capital, which, in its indirect consequences, yields the labourer a rising percentage of interest.[13]

Diihring also in his theory of interest takes an entirely socialistic position. "The nature of profit is that of an appropriation of the principal part of the return to labour. The increase of the return and the saving of labour are results of the unproved and enlarged means of production. But the circumstance that the hindrances and difficulties of production are lessened, and that bare labour, in furnishing itself with tools, renders itself more productive, does not give the *inanimate* tool any claim to absorb a fraction more than what is required to reproduce it. The idea of profit therefore is not one that could be evolved from the productivity of labour, or in any system where the economical subject was looked on as an economically self-contained individual. It is a form of appropriation, and is a creation of the peculiar circumstances of distribution."[14]

A second group of eclectic writers add the ideas of the

Exploitation theory to their other views on the interest problem; as, for example, John Stuart Mill and Schäffle.

Finally, there are others who have allowed themselves to be swayed by the impression made on them by socialist writers, and while not acknowledging the entire system of these writers, have still accepted individual points of importance. The most noteworthy feature in this direction seems to me the acceptance, by a considerable number of the German Katheder[15] Socialists, of the old proposition that labour is the sole source of all value, the sole value-producing power.

This proposition, the acceptance or rejection of which has such an enormous weight in determining our judgment of the most important economic phenomena, has had a peculiar fate. It was originally started by the political economy of England, and in the first twenty years or so after the appearance of the *Wealth of Nations* it had gained a wide circulation along with Adam Smith's system. Later on, under the influence of Say, who developed the theory of the three productive factors, nature, labour, and capital, and then under the influence of Hermann and Senior, it came into disrepute with the majority of political economists, even of the English school. For a time the tradition was maintained only by a few socialist writers. Then the Katheder Socialists accepted it from the writings of such men as Proudhon, Rodbertus, and Marx, and it once more gained a firm position in scientific political economy. At the present time it almost looks as if the authority enjoyed by the distinguished leaders of that school was on the eve of starting it for the second time on a triumphant march round the literature of all nations.

Whether this is to be desired or not will be shown by the critical examination of the Exploitation theory to which I now address myself.

In criticising this theory several courses were open to me. I might have criticised all its representatives individually. This would certainly have been the most accurate way, but the strong resemblance between individual statements would have led to superfluous and extremely wearisome repetitions. Or, without going into individual statements, I might have directed my criticism against the general scheme that these individual statements really have in common. In doing so, however, there would have been a double difficulty. On the one hand, I should have encountered the danger of making too little account of certain individual variations in the doctrine, and on the other hand, if this had been avoided, I should certainly not have escaped the reproach of making too light of the subject, and of directing my criticism against a wilful caricature, instead of against the real doctrine. I decided, therefore, to take a third course; to select those individual statements that appear to me the best and most complete, and to submit them to a separate criticism.

For this purpose I have chosen the statements of the Exploitation theory given by Rodbertus and Marx. They are the only ones that offer anything like a firm and coherent foundation. While that of Rodbertus is to my mind the best, that of Marx is the one which has won most general acceptance, and the one which may to a certain extent be regarded as the official system of the Socialism of to-day. In subjecting these two to a close examination I think I am taking the Exploitation theory on its strongest side, remembering that fine saying of Knies, "He that would be victorious on the field of scientific research must let his adversary advance fully armed and in all his strength."[16]

To avoid misunderstandings, one more remark before beginning. The purpose of the following pages is to criticise the Exploitation theory exclusively as a theory; that is to say, to investigate whether the causes of the economic phenomenon of interest really consist in those circumstances which the Exploitation theory asserts to be its originating causes. It is not my intention to offer an opinion in this place on the practical and social side of the interest problem, whether it is objectionable or unobjectionable, whether it should be retained or abolished. Of course no one would think of writing a book on interest and remaining silent on the most important question connected with it. But I can only speak to any purpose of the practical side of the matter when the theoretical side has first been made perfectly clear. . . . I repeat, then, that in the present instance I shall merely examine whether interest, be it good or be it bad, comes into existence from the causes asserted by the Exploitation theory.

CHAPTER II
RODBERTUS

THE starting-point of Rodbertus's's[17] theory of interest is the proposition, introduced into the science by Adam Smith and more firmly established by the Ricardian school, that goods, economically considered, are to be regarded as products of labour alone, and cost nothing but labour. This proposition, which is usually expressed in the words "Labour alone is productive," is amplified by Rodbertus as follows: —

1. Only those goods are economical goods which have cost labour; all other goods, be they ever so useful or necessary to mankind, are natural goods, and have no place in economical consideration.

2. All economic goods are the product of labour and labour only; for the economic conception they do not count as products of nature or of any other power, but solely as products of labour; any other conception of them may be physical, but it is not economic.

3. Goods, economically considered, are the product solely of that labour which has performed the material operations necessary to their production. But to this category belongs not merely that labour which immediately produces the goods, but also that labour which first creates the instrument by which the goods are made. Thus grain is not merely the product of the man who held the plough, but also of him who made the plough, and so on.[18]

The fundamental proposition that all goods, economically considered, are the product of labour alone, has with Rodbertus very much the claim of an axiom. He considers it a proposition about which, "in the advanced state of political economy, there is no longer any dispute;" it is naturalised among English economists, has its representatives among those of France, and, "what is most important, in spite of all the sophisms of a retrograde and conservative doctrine, is indelibly imprinted upon the consciousness of the people."[19] Only once do I find any attempt in Rodbertus to put this proposition on a rational foundation. He says that "every product that comes to us through labour in the shape of a good ought to be put solely to the account of human labour, because labour is the only original power, and also the only original cost with which human economy is concerned."[20] This proposition also is put down as an axiom, and Rodbertus does not go any farther into the subject.

The actual labourers who produce the entire product in the shape of goods have, at least "according to the pure idea of justice," a natural and just claim to obtain possession of this entire product.[21] But this with two rather important limitations. First, the system of the division of labour, under which many co-operate in the production of one product, makes it technically impossible that each labourer should receive his product *in natura.* There must therefore be substituted, for the claim to the whole product, the claim to the whole value of the product.[22]

Further, all those who render society useful services without immediately co-operating in the material producing of the goods must have a share in the national product; such, for example, as the clergyman, the physician, the judge, the scientific investigator, and, in Rodbertus's opinion, even the undertakers, who "understand how to employ a number of labourers productively by means of a capital"[23] But such labour, being only "indirect economic labour," may not put in its claim of payment at the "original distribution of goods," in which the producers alone take part, but only at a "secondary distribution of goods." What then is the claim which the actual labourers have to put forward, according to the pure idea of justice? It is a claim to receive the entire value of the product of their labour in the original distribution, without prejudice to the secondary claims on salary of other useful members of society.

This natural claim Rodbertus does not find recognised in present social arrangements. The labourers of to-day receive as wages, in the original distribution, only a part of the value of their product, while the remainder falls as rent to the owners of land and capital.

Rent is defined by Rodbertus as "all income obtained without personal exertion solely in virtue of possession."[24] It includes two kinds of rent — land-rent and profit on capital.

Rodbertus then asks, As every income is the product of labour alone, what is the reason that certain persons in society draw incomes (and, moreover, original incomes) without stirring a finger in the work of production? In this question Rodbertus has stated the general theoretical problem of the theory of rent.[25] The answer he gives is the following: —

Rent owes its existence to the coincidence of two facts, one economical and one legal. The economic ground of rent lies in the fact that, since the introduction of the division of labour, the labourers produce more than they require to support themselves in life and to allow them to continue their labour, and thus others also are able to live upon the product. The legal ground lies in the existence of private property in land and capital. As, therefore, through the existence of private property the labourers have lost all control over the conditions that are indispensable to production, they cannot, as a rule, do otherwise than produce in the service of the proprietors, and that according to an agreement previously made. These proprietors impose upon the labourers the obligation of surrendering a part of the product of their labour as rent, in return for the opportunity of using the conditions of production just mentioned. Indeed this surrender even takes an aggravated form, for the labourers have to give up to the owners the possession of their entire product, receiving back from the owners only a part of its value as wage, and a part that is no more than the labourers absolutely require to keep them in life and allow them to continue their labour. The power which forces the labourers to agree to this contract is Hunger. To let Rodbertus speak for himself: —

"As there can be no income unless it is produced by labour, rent rests on two indispensable conditions. First, there can be no rent if labour does not produce more than the amount which is just necessary to the labourers to secure the continuance of their labour, for it is impossible that without such a surplus any one, without himself labouring, can regularly receive an income. Secondly, there could be no rent if arrangements did not exist which deprive the labourers of this surplus, either wholly or in part, and give it to others who do not themselves labour, for in the nature of things the labourers themselves are always the first to come into possession of their product. That labour yields such a surplus rests on economic grounds that increase the productivity of labour. That this surplus is entirely or in part withdrawn from the labourers and given to others rests on grounds of positive law; and as law has always united itself with force it only effects this withdrawal by continual compulsion.

"The form which this compulsion originally took was slavery, the origin of which is contemporaneous with that of agriculture and landed property. The labourers who produced such a surplus in their labour-product were slaves, and the master to whom the labourers belonged, and to whom consequently the product itself also belonged, gave the slaves only so much as was necessary for the continuance of their labour, and kept the remainder or surplus to himself. If all the land, and at the same time all the capital of a country, have passed into private property, then landed property and property in capital exert a similar compulsion even over freed or free labourers. For, first, the result will be the same as in slavery, that the product will

> not belong to the labourers, but to the masters of land and capital: and secondly, the labourers who possess nothing, in face of the masters possessing land and capital, will be glad to receive a part only of the product of their own labour with which to support themselves in life; that is to say, again, to enable them to continue their labour. Thus, although the contract of labourer and employer has taken the place of slavery, the contract is only formally and not actually free, and Hunger makes a good substitute for the whip. What was formerly called food is now called wage."[26]

Thus, then, all rent is an exploitation,[27] or, as Rodbertus sometimes calls it still more forcibly, a robbery of the product of other people's labour.[28] This character applies to all kinds of rent equally; to land-rent as well as to profit on capital, and to the emoluments of hire and loan interest derived from them. Hire and interest are as legitimate in connection with the undertakers as they are illegitimate in connection with the labourers, at whose cost, in the last resort, they are paid.[29]

The amount of rent increases with the productivity of labour; for under the system of free competition the labourer receives, universally and constantly, only the amount necessary for his maintenance — that is, a definite quantum of the product. Thus the greater the productivity of labour the less will be the proportion of the total value of the product claimed by this quantum, and the greater will be the proportion of the product and of the value remaining over to the proprietor as his share, as rent.[30]

Although, according to what has been already said, all rent forms a homogeneous mass having one common origin in practical economic life, it is divided into two branches, land-rent and profit on capital. Rodbertus then explains the reason and the laws of this division in a most peculiar way. He starts from the theoretical assumption, which he carries through all his investigation, that the exchange value of all products is equal to their labour-costs; in other words, that all products exchange with each other in proportion to the labour they have cost.[31] Rodbertus indeed is aware that this assumption does not exactly correspond with reality. Still he believes that the deviations amount to nothing more than that "the actual exchange value falls sometimes on the one side, sometimes on the other," in which cases there is at least always a point towards which they gravitate, "that point being the natural as well as the just exchange value."[32] He entirely rejects the idea that goods normally exchange with each other according to any other proportion than that of the labour incorporated in them; that deviations from this proportion may be the result, not merely of accidental and momentary fluctuations of the market, but of a fixed law drawing the value in another direction.[33] At this stage I merely draw attention to the circumstance, and will show its importance later on.

The total production of goods may, according to Rodbertus, be divided into two branches — raw production, which with the assistance of land obtains raw products, and manufacture which works up the raw products. Before division of labour was introduced the obtaining and working up of raw products were performed in immediate succession by one undertaker, who then received without division the whole resulting rent. In this stage of economic development there was no separation of rent into land-rent and profit on capital. But, since the introduction of the division of labour, the undertaker of the raw production and the undertaker of the manufacture which follows it are distinct persons. The preliminary question is, In what proportion will the rent that results from the total production now be divided among the producers of the raw material on the one hand and the manufacturers on the other?

The answer to this question follows from the character of rent. Rent is a proportion of and deduction from the value of the product. The amount of rent that can be obtained in any branch of production is regulated by the value of the product created in this branch of production. As, however, the amount of the value of the product is regulated here also by the amount of the labour spent on it, the total rent will be divided between raw production and manufacture, according to the expenditure of labour in each of these branches. To illustrate this by a concrete example.[34] Say that it requires 1000 days of labour to obtain a certain amount of raw product, and that its manufacture requires 2000 days more; then if rent takes 40 per cent of the value of the product as the share of the owners, the product of 400 days of labour will fall as rent to the producers of raw material, and the product of 800 days of labour as rent to the manufacturing undertakers. On the other hand, the amount of capital employed in each branch of production is a matter of no consequence as regards this division, for though the rent is estimated in relation to this capital, it is not determined by it, but by the amount of labour supplied.

Now the very fact that the amount of capital employed has no causal influence on the amount of rent obtainable in any branch of production becomes the cause of land-rent. Rodbertus proves this in the following manner.

Rent is the product of labour. But it is conditioned by the possession of wealth. Therefore rent is looked on as a return to that wealth. In manufacture this wealth takes the form of capital alone, and not of land. Thus the total rent obtained in manufacture is regarded as return on capital, or profit on capital. And thus by calculating, in the usual way, the proportion between the amount of return and the amount of the capital on which the return is obtained, we come to say that a definite percentage of profit is obtainable from capital engaged in manufacture. In virtue of well-known tendencies of competition this rate of profit will approximate to equality in all branches, and will also become the standard for calculating the profit of capital engaged in raw production; for a much greater portion of the national capital is engaged in manufacture than in agriculture, and obviously the return of the greater portion of capital must dictate to the smaller portion the rate at which its profit shall be calculated. Therefore the raw producers must calculate, as profit on their capital, so much of the total rent gained in the raw production as corresponds with the amount of capital that has, been employed and with the usual rate of profit. The remainder of the rent, on the other hand, must be considered as return from land, and forms the land-rent.

Now, according to Rodbertus, there must always be such a remainder in raw production, in virtue of the assumption that products exchange in proportion to the amount of labour incorporated in them. He proves this as follows. The amount of rent obtainable in manufacture depends, as we have seen, not on the amount of the capital laid out, but on the quantity of labour performed in the manufacture. This labour is made up of two constituent parts; on the one side, the immediate labour of manufacture, on the other side, that indirect labour "which must also be taken into calculation as representing the tools and machines used." Therefore of the different constituent portions of the capital laid out, only those portions will affect the amount of rent which consist of wages and expenditure for machines and tools. On the other hand, no such influence affects the capital laid out in raw materials, because this outlay does not express any labour performed in the manufacturing stage. Yet this part of the outlay increases the capital on which the rent obtainable as return is calculated. The existence of a portion of capital which increases the manufacturing capital on which the share of the rent that falls to it as profit is calculated, while it does not increase this profit itself, must evidently lower the proportion of the profit to the capital; in other words, it must lower the rate of profit on capital engaged in manufacture.

Now the profit on capital engaged in raw production also will be calculated at this reduced rate. But here (in raw production) the circumstances are generally more favourable. For as agriculture begins production *ab ovo,* and does not work up material derived from a previous production, its outlay of capital has no constituent "value of material." The analogue of material is simply land, and land in all theories is assumed to cost nothing. Hence no portion of capital has any share in the division of the profit which does not also have an influence upon its amount, and hence also the proportion between the rent gained and the capital employed must be more favourable in agriculture than in manufacture. As however, in agriculture also, the profit on capital is calculated at the reduced rate determined by manufacture, there must always remain a surplus of rent, which falls to the landowner as land-rent. This, according to Rodbertus, is the origin of land-rent, and its distinction from profit on capital.[35]

I may shortly supplement this by remarking that, notwithstanding the very severe theoretical judgment that he pronounces on profit in describing it as plunder, Rodbertus will not hear of abolishing either private property in capital or profit on capital. Nay, he ascribes to property in land and capital "an educating power" which we cannot spare; a "kind of patriarchal power that could only be replaced after a completely altered system of national instruction, for which at present we have not got even the conditions."[36] Property in land and capital appear to him in the meanwhile to have "a kind of official position involving the national functions of managing the economic labour and the economic resources of the nation in correspondence with national need."

Thus from this, its most favourable point of view, rent may be regarded as a form of salary which certain "officers" receive for the execution of their functions.[37] I have already observed above how this remark, casually expressed in a mere note, formed the basis on which later writers, particularly Schäffle, have built up a peculiar form of the Labour theory.

To come now to criticism of Rodbertus's system. Without circumlocution I may say at once that I consider the theory which it contains to be an entire failure. I am convinced that it suffers from a series of grave theoretical defects which I shall endeavour to set forth in the following pages as clearly and as impartially as may be.

At the outset I am obliged to take exception to the very first stone that Rodbertus lays in the structure of his system — the proposition that all goods, economically considered, are products of labour and of labour alone.

First of all, what do the words "economically considered" mean? Rodbertus explains them by a contrast. He puts the economical standpoint in opposition to the physical standpoint. That goods, physically speaking, are the products not only of labour but of natural powers, he explicitly allows. If then it is said that, from the economic standpoint, goods are the product of labour only, the statement can surely have but one meaning, viz. that the co-operation of natural powers in production is a matter of utter indifference so far as human economy is concerned. On one occasion Rodbertus gives forcible expression to this conception when he says: "All other goods except those that have cost labour, however useful or necessary they may be to mankind, are natural goods, and have no place in economic consideration." "Man may be thankful for what nature has done beforehand in the case of economic goods, as it has spared him so much extra labour, but economy takes notice of them only in so far as labour has completed the work of nature."[38]

Now this is simply false. Even purely natural goods have a place in economic consideration, provided only they are scarce as compared with the need for them. If a lump of solid gold in the shape of a meteoric stone falls on a man's field, is it not to be economically considered? Or if a silver mine is discovered by chance on his estate, is the silver not to be economically considered? Will the owner of the field really pay no attention to the gold and silver given him by nature, or give them away, or waste them, simply because they were bestowed on him by nature without exertion on his part? Will he not preserve them just as carefully as he would gold and silver that he had earned by the labour of his hands; place them in security from the greed of others; cautiously convert them into money in the market — in short, treat them economically? And again, is it true that economy has regard to those goods which have cost labour only in so far as labour has completed the work of nature? If that were the case, men acting economically would have to put a cask of the most exquisite Rhine wine on the same level with a cask of well-made but naturally inferior country wine, for human labour has done pretty much the same for both. That, notwithstanding this, the Rhine wine is often valued economically at ten times the amount of the other, is a striking confutation of Rodbertus's theorem at the hands of everyday experience.

All this is so obvious that we might fairly expect Rodbertus to have taken every precaution to guard this, his first and most important fundamental proposition, against such objections. In this expectation, however, we are disappointed. With peculiar carelessness he is content on almost every occasion to assert this proposition in the tone of an axiom. Sometimes he appeals on its behalf to the authority of Adam Smith and Ricardo, and only on one single occasion does he say anything that might be construed as an attempt to give it any real foundation.

The critic will scarcely be satisfied with such poor support for a proposition so important. As regards the authorities appealed to, in a scientific discussion authorities in themselves prove nothing. Their strength is simply the strength of the arguments which they represent. But we shall shortly have an opportunity of convincing ourselves that Adam Smith and Ricardo merely assert the proposition as an axiom without giving any kind of argument for it. Moreover, as Knies has on a recent occasion very properly pointed out,[39] Adam Smith and Ricardo themselves have not held consistently to it.

In the one seriously argued passage Rodbertus says: "Every product that comes to us through labour in the shape of a good is, economically speaking, to be placed to the credit of human labour alone, because labour is the only original power, and also the only original cost with which human economy is concerned."[40] As regards this argument, however, one may seriously doubt, in the first place, whether the premise made use of is itself correct, and Knies has shown that there is good reason for questioning it.[41] And in the second place, even if the premise be correct, the conclusion is not necessarily so. Even if labour actually were the sole original power with which human economy has anything to do, I do not at all see why it should not be desirable to act economically in regard to some things besides "original powers." Why not in regard to certain results of these original powers, or to the results of other original powers? Why not, for instance, with the golden meteorite we spoke of? Why not with the precious stone we accidentally find? Why not with natural deposits of coal? Rodbertus has too narrow a conception both of the nature and of the motive of economy. We deal economically with the original power, labour, because, as Rodbertus quite correctly says, "Labour is limited by time and strength, because in being employed it is expended, and because in the end it robs us of our freedom." But all these are only secondary motives, not the final motive for our economic conduct. In the last resort we deal economically with limited and toilsome labour because we should suffer loss of wellbeing by an uneconomic treatment. But exactly the same motive impels us to deal economically with every other useful thing which, as existing in a limited quantity, we could not want or lose without losing something of the enjoyment of life. It matters not whether it be an original power or not; whether the thing has cost the original power we call labour or not.

Finally, the position taken by Rodbertus becomes entirely untenable when he adds that goods are to be regarded as the products of material manual labour alone. This principle would forbid even direct intellectual guidance of labour from being recognised as having any productive function, and would lead to an amount of internal contradiction and false conclusion that leaves no doubt of its incorrectness. This, however, has been shown by Knies in such a striking way that it would be mere superfluous iteration to dwell further on the point.[42]

Thus in the very first proposition he has laid down Rodbertus comes into collision with fact. To be entirely just, however, I must here make one concession which Knies, as representing the Use theory, was unable to make. I admit that, in confuting this fundamental principle, the whole of Rodbertus's interest theory has not been confuted. The proposition is wrong; not, however, because it mistakes the part played by capital in the production of goods, but because it mistakes the part played by nature.

I believe with Rodbertus that, if we consider the result of all the stages of production as a whole, capital cannot maintain an independent place among the costs of production. It is not exclusively "previous labour," as Rodbertus thinks, but it is partly, and indeed, as a rule, it is principally "previous labour"; for the rest, it is valuable natural power stored up for human purposes. Where natural power is conspicuous — as in a production which, in all its stages, only makes use of free gifts of nature and of labour, or which makes use of such products as have themselves originated exclusively in free gifts of nature and in labour — in such cases we could, indeed, say with Rodbertus that the goods, economically considered, are products of labour only.

Since then Rodbertus's fundamental error does not refer to the role of capital, but only to that of nature, the inferences regarding the nature of profit on capital which he deduces are not necessarily false. It is only if essential errors appear as well in the development of his theory that we may reject these inferences as false. Now such errors there undoubtedly are.

Not to make an unfair use of Rodbertus's first mistake, I shall, in the whole of the following examination, put all the hypotheses in such a way that the consequences of that mistake may be completely eliminated. I shall assume that all goods are produced only by the co-operation of labour and of free natural powers, and by the assistance exclusively of such objects of capital as have themselves originated only by the co-operation of labour and free natural powers, without the intervention of such natural gifts as possess exchange value. On this limited hypothesis it is possible for us to admit Rodbertus's fundamental proposition that goods, economically considered, cost labour alone. Let us now look farther.

The next proposition of Rodbertus runs thus: that, according to nature and the "pure idea of justice," the whole product, or the whole value of the product, ought to belong without deduction to the labourer who produced it. In this proposition also I fully concur. In my opinion no objection could be taken to its correctness and justice under the presupposition we have made. But I believe that Rodbertus, and all socialists with him, have a false idea of the actual results that flow from this true and just proposition, and are led by this mistake into desiring to establish a condition which does not really correspond with the principle, but contradicts it. It is remarkable that, in the many attempts at confutation that have been directed up till now against the Exploitation theory, this decisive point has been touched on only in the most superficial way, and never yet been placed in the proper light. It is on this account that I ask my readers to give some attention to the following argument; all the more so as it is by no means easy.

I shall first simply specify and then examine the blunder. The perfectly just proposition that the labourer should receive the entire value of his product may be understood to mean, either that the labourer should now receive the entire *present* value of his product, or should receive the entire *future* value of his product *in the future.* But Rodbertus and the socialists expound it as if it meant that the labourer should *now* receive the entire *future* value of his product, and they speak as if this were quite self-evident, and indeed the only possible explanation of the proposition.

Let us illustrate the matter by a concrete example. Suppose that the production of a steam-engine costs five years of labour, and that the price which the completed engine fetches is £550. Suppose further, putting aside meanwhile the fact that such work would actually be divided among several persons, that a worker by his own continuous labour during five years makes the engine. We ask, What is due to him as wages in the light of the principle that to the labourer should belong his entire product, or the entire value of his product? There cannot be a moment's doubt about the answer. The whole steam-engine belongs to him, or the whole of its price, £550. But at what time is this due to him? There cannot be the slightest doubt about that either. Clearly it is due on the expiry of five years. For of course he cannot get the steam-engine before it exists; he cannot take possession of a value of £550 created by himself before it is created. He will, in this case, have to get his compensation according to the formula, The whole future product, or its whole future value, at a future period of time.

But it very often happens that the labourer cannot or will not wait till his product be fully completed. Our labourer, for instance, at the expiry of a year, wishes to receive a part payment corresponding to the time he has worked. The question is, How is this to be measured in accordance with the above proposition? I do not think there can be a moment's doubt about the answer. The labourer has got his due if he now receives the whole of what he has made up till now. Thus, for example, if up till now he has produced a heap of brass, iron, or steel, in the raw state, then he will receive his due if he is handed over just this entire heap of brass, iron, or steel, or the entire value which this heap of materials has, and of course the value which it has now. I do not think that any socialist whatever could have anything to object to in this conclusion.

Now, how great will this value be in proportion to the value of the completed steam-engine? This is a point on which a superficial thinker may easily make a mistake. The point is, the labourer has up till now performed a fifth part of the technical work which the production of the whole engine requires. Consequently, on a superficial glance, one is tempted to infer that his present product will possess a fifth part of the value of the whole product — that is, a value of £110.

On this view the labourer ought to receive a year's wage of £110.

This, however, is incorrect. £110 are a fifth part of the value of a steam-engine *when completed.* But what the labourer has produced up till now is not a fifth part of an engine that is already completed, but only a fifth part of an engine that will not be completed till four years more have elapsed. And these are two different things; not different in virtue of a sophistical quibble, but different in very fact. The one-fifth part has a different value from the other so surely as, in the valuation of to-day, an entire and finished engine has a different value from an engine that will only be ready for use in four years; so surely as, generally speaking, present goods have a different value in the present from future goods.

That present goods, in the estimation of the present time, in which our economical transactions take place, have a higher value than future goods of the same kind and quality, is one of the most widely known and most important economic facts. In the second volume of this work I shall have to make thorough examination into the causes to which this fact owes its origin, into the many and various ways in which it shows itself, and into the no less many and various consequences to which it leads in economic life; and that examination will be neither so easy nor so simple as the simplicity of the fundamental thought seems to promise. But in the meantime I think I may be allowed to appeal to the fact that present goods have a higher value than similar kinds of goods in the future, as one that is already put beyond dispute by the most ordinary experience of everyday life. If one were to give a thousand persons the choice whether they would rather take a gift of £100 to-day, or take it fifty years hence, surely all the thousand persons would prefer to take the £100 now. Or if one were to ask a thousand persons who wished a horse, and were disposed to give £100 for a good one, how much they would give now for a horse that they would only get possession of in ten or in fifty years, although as good an animal were guaranteed at that time, surely they would all name an infinitely smaller sum, if they named one at all; and thereby they would surely prove that everybody considers present goods to be more valuable than future goods of the same kind.

If this is so, that which has been made by our labourer in the first year, *i.e.* the fifth part of a steam-engine which is to be completed four years later, has not the entire value of a fifth part of an already completed engine, but has a smaller value.

How much smaller? That I cannot explain at present without anticipating my argument in a confusing way. Enough here to remark that it stands in a certain connection with the rate of interest usual in the country[43] — a rate which is a matter of experience — and with the remoteness of the period at which the whole product will be completed. If we assume the usual rate of interest to be 5 per cent, then the product of the first year's labour will, at the close of the year, be worth about £100.[44] Therefore, according to the proposition that the labourer ought to receive his whole product, or its whole value, the wages due him for the first year's labour will amount to the sum of £100.

If, notwithstanding the above deductions, any one should have the impression that this sum is too small, let me offer the following for his consideration. No one will doubt that the labourer gets his full rights if at the end of five years he receives the entire steam-engine, or the whole value of £550. Let us calculate then for comparison's sake what would be the value of the part-wage anticipated as above at the end of the fifth year? The £100 which the labourer has received at the end of the first year can be put out at interest for the next four years — that is, till the end of the fifth year; at the rate of 5 per cent (without calculating compound interest), the £100 may therefore increase by £20 — this course being open even to the wage-paid labourer. Thus, it is clear, the £100 paid at the end of the first year are equivalent to £120 at the end of the fifth. If the labourer then, for the fifth part of the technical labour, receives £100 at the end of a year, clearly he is paid according to a scale which puts him in as favourable a position as if he had received £550 for the whole labour at the expiry of five years.

But what do Rodbertus and the socialists suppose to be the application of the principle that the labourer should receive the whole value of his product? They would have the whole value that the completed engine will have at the end of the process of production applied to the payment of wages, but they would have this payment not made at the conclusion of the whole production, but spread proportionally over the whole course of the labour. We should consider well what that means. It means that the labourer in our example, through this averaging of the part payments, is to receive in two and a half years the whole of the £550 which will be the value of the completed steam-engine at the end of five years.

I must confess that I consider it absolutely impossible to base this claim on these premises. How should it be according to nature, and founded on the pure idea of justice, that any one should receive at the end of two and a half years a whole that he will only have produced in five years? It is so little "according to nature," that, on the contrary, in the nature of things it could not be done. It could not be done even if the labourer were released from all the shackles of the much-abused wage-contract, and put in the most favourable position that can be conceived — that of undertaker in his own right. As labourer-undertaker he will certainly receive the whole of the £550, but not before they are produced; that is to say, not till the end of the five years. And how can that which the very nature of things denies to the undertaker himself be accomplished, in the name of the pure idea of justice, through the contract of wages?

To give the matter its proper expression, what the socialists would have is, that the labourers, by means of the wage-contract, should get *more* than they have made; more than they could get if they were undertakers on their own account; and more than they produce for the undertaker with whom they conclude the wage-contract. What they have created, and what they have just claim on, is the £550 at the end of the five years. But the £550 at the end of two and a half years which the socialists claim for them is more; if the interest stand at 5 per cent it is about as much as £620 at the end of five years. And this difference of value is not, as might be thought, a result of social institutions which have created interest and fixed it at 5 per cent — institutions that might be combated. It is a direct result of the fact that the life of all of us plays itself out in time; that to-day with its wants and cares comes before to-morrow; and that none of us is sure of the day after to-morrow. It is not only the capitalist greedy of profit, it is every labourer as well, nay, every human being that makes this distinction of value between present and future. How the labourer would cry out that he was defrauded if, instead of the 20s. which are due him for his week's wage to-day, one were to offer him 20s. a year hence! And that which is not a matter of indifference to the labourer is to be a matter of indifference to the undertaker! He is to give £550 at the end of two and a half years for the £550 which he is to receive, in the form of the completed product, only at the end of five years. That is neither just nor natural. What is just and natural is — I willingly acknowledge it again — that the labourer should receive the whole value, the £550, at the end of five years. If he cannot or will not wait five years, yet he should, all the same, have the value of his product; but of course the present value of his *present* product. This value, however, will require to be less than the corresponding proportion of the future value of the product of the technical labour, because in the economic world the law holds that the present value of future goods is less than that of present goods, — a law that owes its existence to no social or political institution, but directly to the nature of men and the nature of things.

If prolixity may ever be excused, it is in this instance, where we have to confute a doctrine with issues so extremely serious as the socialist Exploitation theory. Therefore at the risk of being wearisome to many of my readers I shall put a second concrete case, which, I hope, will afford me an opportunity of pointing out still more convincingly the blunders of the socialists.

In our first illustration we took no account of the division of labour. Let us now vary the hypothesis in such a way that at this point it will come nearer to the reality of economic life.

Suppose then that, in the making of the engine, five different workers take separate parts, each contributing one year's labour. One labourer obtains, say, by mining, the needful iron ore; the second smelts it; the third transforms the iron into steel; the fourth takes the steel and manufactures the separate constituent parts; and finally the fifth gives the parts their necessary connection, and in general puts the finishing touches to the work. As each succeeding labourer in this case, by the very nature of things, can only begin his work when his predecessors have finished theirs, the five years' work of our labourers cannot be performed simultaneously but only successively. Thus the making of the engine will take five years just as in the first illustration. The value of the completed engine remains, as before, £550. According to the proposition that the labourer is to receive the entire value of his product, how much will each of the five partners be able to claim for what he has done?

Let us try to answer this question first on the assumption that the claims of wages are to be adjusted, without the intervention of an outside undertaker, solely among the labourers themselves; the product obtained is to be divided simply among the five labourers. In this case two things are certain.

First, a division can only take place after five years, because before that date there is nothing suitable for division. For if one were now to give away in payment of wages to individuals, say the brass and iron which had been secured during the first two years, the raw material for the next stage of the work would be wanting. It is abundantly clear that the product acquired in the first years is necessarily withdrawn from any earlier division, and must remain bound up in the production till the close.

Second, it is certain that a total value of £550 will have to be divided among the five labourers.

In what proportion will it be divided?

Certainly not, as one might easily think at the first hasty glance, into equal parts. For this would be distinctly to favour those labourers whose labour comes at a later stage of the total production, in comparison with their colleagues who were employed in the earlier stages. The labourer who completed the engine would receive for his year's labour £110 immediately on the conclusion of his work; the labourer who turned out the separate constituent portions of the engine would receive the same sum, but must wait on his payment for a whole year after the completion of his year's labour; while that labourer who procured the ore would not receive the same amount of wages till four years after he had done his share of the work. As such a delay could not possibly be indifferent to the partners, every one would wish to undertake the final labour (which has not to suffer any postponement of wage), and nobody would be willing to take the preparatory stages. To find labourers to take the preparatory stages then, the labourers of the final stages would be compelled to grant to their colleagues who prepared the work a larger share in the final value of the product, as compensation for the postponement. The amount of this larger share would be regulated, partly by the period of the postponement, partly by the amount of difference that subsists between the valuation of present and the valuation of future goods — a difference which would depend on the economic circumstances of our little society, and on its level of culture. If this difference, for instance, amounted to 5 per cent per annum, the shares of the five labourers would graduate in the following manner: —

The first labourer employed, who has to wait for his payment four years after the conclusion of his year's work, receives at the end of the fifth year .	£120
The second, who has to wait three years . . .	115
The third, who waits two years	110
The fourth, who waits one year	105
The last, who receives his wages immediately on the conclusion of his labour	100
Total . . .	£550

That all the labourers should receive the same amount of £110 is only conceivable on the assumption that the difference of time is of no importance whatever to them, and that they find themselves quite as well paid with the £110, which they receive three or four years after, as if they had received the £110 immediately on the conclusion of their labour. But I need scarcely emphasise that such an assumption never corresponds with fact, and never can. That they should each receive £110 *immediately on the accomplislnnent of their labour* is, if a third party do not step in, altogether impossible.

It is well worth the trouble, in passing, to draw particular attention to one circumstance. I believe no one will find the above scheme of distribution unjust. Above all, as the labourers divide their own product among themselves alone, there cannot be any question of injustice on the part of a capitalist-undertaker. And yet that labourer who has performed the second last fifth part of the work does not receive the full fifth part of the final value of the product, but only £105; and the last labourer of all receives only £100.

Now assume, as is generally the case in actual fact, that the labourers cannot or will not wait for their wage till the very end of the production of the engine, and that they enter into a negotiation with an undertaker, with the view of obtaining a wage from him immediately on the performance of their labour, in return for which he is to become the owner of the final product. Assume, further, that this undertaker is a perfectly just and disinterested man, who is far from making use of the position into which the labourers are possibly forced, to usuriously depress their claim of wages; and let us ask, On what conditions will the wage-contract be concluded under such circumstances? The question is tolerably easy to answer. Clearly the labourers will be perfectly justly treated if the undertaker offers them as wage the sums which they would have received as parts of the division, if they had been producing on their own account. This principle gives us first a firm standing ground for one labourer, namely, for the last. This labourer would in the former case have received £100 immediately after the accomplishment of his labour. This £100, therefore, to be perfectly just, the undertaker must now offer him. For the remaining labourers the above principle gives no immediate indication. The wages in this case are not paid at the same time as they would have been in the case of the division, and the sums paid in the former case cannot afford a direct standard. But we have another standing ground. As all five labourers have performed an equal amount towards the accomplishment of the work, in justice an equal wage is due to them; and where every labourer is to be paid immediately on the performance of his labour, this wage will be expressed by an equal amount. Therefore, in justice, all five labourers, at the end of their year's labour, will receive each £100.

If this seems too little, let me refer to the following simple calculation, which will demonstrate that the labourers receive quite the same value in this case as they would have received had they divided the whole product among themselves alone, in which case, as we have seen, the justice of the division would have been beyond question.

Labourer No. 5 receives, in the case of division, £100 immediately after the year's labour; in the case of the wage-contract he receives the same sum at the same time.

Labourer No. 4 receives, in the case of division, £105 a year after the termination of the year's labour; in the case of the wage-contract £100 immediately after the labour. If, in the latter case, he lets this sum lie at interest for a year he will be in exactly the same position as he would have been in the case of division; he will be in possession of £105 one year after the conclusion of his labour.

Worker No. 3 receives, in the case of division, £110 two years after the termination of his labour; in the wage-contract, £100 at once, which sum, placed at interest for two years, will increase to £110.

And in the same way, finally, the £100 which the first and second labourers receive are, with the addition of the respective interests, quite equivalent to the £120 and the £115 which, in the case of division, these two labourers would have received respectively four and three years after the conclusion of their labour.

But if each single wage under the contract is equal to the corresponding quota under the division, of course the sum of the wages must also be equal to the sum of the division quotas; the sum of £500 which the undertaker pays to the labourers immediately on the completion of their work is entirely equal in value to the £550 which, in the other case, would have been divided among the labourers at the end of the fifth year.

A higher wage payment, *e.g.* to pay the year's labour at £110 each labourer, is only conceivable in one of two cases; either if that which is not indifferent to the labourers, namely, the difference of time, were completely indifferent to the undertaker; or if the undertaker were willing to make a gift to the labourers of the difference in value between a present £110 and a future £110. Neither the one nor the other is to be expected of private undertakers, at least as a rule; nor do they deserve the slightest reproach on that account, and, least of all, the reproach of injustice, exploitation, or robbery.

There is only one personage from whom the labourers could expect such a treatment — the State. For on the one hand, the state, as a permanently existing entity, is not bound to pay as much regard to the difference of time in the outgoing and replacing of goods as the short-lived individual. And on the other hand, the state, whose end is the welfare of the whole, can, if it is a question of the welfare of a great number of the members, quit the strict standpoint of service and counter-service, and, instead of bargaining, may give. So then it certainly is conceivable that the state — but certainly only the state — assuming the function of a gigantic undertaker of production, might offer to the labourers as wage the full future value of their future product at once, that is, immediately after the accomplishment of their labour.

Whether the state *ought* to do this — by which, in the view of Socialism, the social question would be practically solved — is a question of propriety which I have no intention of entering on at this moment.. But this must be repeated with all emphasis: if the socialist state pays down at once, as wages to the labourer, the whole future value of his product, it is not a fulfilment of the fundamental law that the labourer should receive the value of his product as wages, but a *departure* from it on social and political grounds. And such a proceeding would not be the bringing back of a state of things that was in itself natural, or in accordance with the pure idea of justice — a state of things only temporarily disturbed by the exploiting greed of the capitalists. It would be an artificial interference, with the intention of making something possible which, in the natural course of things, was not possible, and of making it possible by means of a disguised continuous gift from the magnanimous commonwealth state to its poorer members.

And now a brief practical application. It is easy to recognise that the method of payment which I have just now described in our illustration is that which actually does obtain in our economic world. In it the full final value of the product of labour is not divided as wages, but only a smaller sum; this smaller sum, however, being divided at an earlier period of time. Now, so long as the total sum of the wages spread over the course of the production is not less than the final value of the finished product by more than is necessary to make up the difference in the valuation of present as compared with future goods — in other words, so long as the sum of the wages does not differ from the final value of the product by more than the amount of the interest customary in the country — no curtailment is made on the claims that the workers have on the whole value of their product. They receive their whole product *according to its valuation at the point of time in which they receive their wages.* Only in so far as the total wages differ from the final value of the product by more than the amount of interest customary in the country, can there be, under the circumstances, any real exploitation of the labourers.[45]

To return to Rodbertus. The second, and most distinct blunder of which I have accused him in the foregoing, is that he interprets the proposition I have conceded (the labourer is to receive the whole value of his product) in an unwarrantable and illogical manner, as if it meant that the labourer is to receive now the whole value which his completed product will have at some future time.

If we inquire how it was that Rodbertus fell into this mistake, we shall find that the cause of it was another mistake, this being the third important error in the Exploitation theory. It is that he starts with the assumption that the value of goods is regulated solely by the amount of labour which their production has cost. If this were correct, then the first product, in which is embodied the labour of one year, must now possess a full fifth part of the value which the completed product, in which is embodied five years of labour, will possess. In this case the claim of the labourer to receive as wages a full fifth part of that completed value would be justified. But this assumption, as Rodbertus puts it, is undoubtedly false. To prove this I need not question in the least the theoretical validity of Ricardo's celebrated theory, that labour is the source and measure of all value. I need only point out the existence of a distinct exception to this law, noticed by Ricardo himself and discussed by him in detail in a separate chapter, but, strangely enough, passed over without notice by Rodbertus. This exception is found in the fact that, of two goods which have cost an equal amount of labour to produce, that one obtains a higher exchange value the completion of which demands the greater advances of previous labour, or the longer period of time. Ricardo notices this fact in a characteristic manner. He declares (§ 4 of the first chapter of his *Principles*) that "the principle that the quantity of labour employed in the production of goods regulates their relative value, suffers a considerable modification by the employment of machinery and other fixed and durable capital," and further, in § 5, "on account of the unequal durability of capital, and of the unequal rapidity with which it is returned to its owner." That is to say, in a production where much fixed capital is used, or fixed capital of a greater durability, or where the time of turn-over on which the floating capital is paid back to the undertaker is longer, the goods made have a higher exchange value than goods which have cost an equal amount of labour, but into the production of which the elements just named do not enter, or enter in a lesser degree — indeed an exchange value which is higher by the amount of the profit which the undertaker expects to obtain.

That this exception to the law of labour-value noticed by Ricardo really exists cannot be questioned, even by the most zealous advocates of that law. Just as little can it be questioned that, under certain circumstances, the consideration of the postponement may have even a greater influence on the value of goods than the consideration of the amount of labour-costs. I may remind the reader, for example, of the value of an old wine that has been stored up for scores of years, or of a hundred-year-old tree in the forest.

But on that exception hangs a tale. It does not require any great penetration to see that the principal feature of natural interest on capital is really involved in it. For when, on the division of the value, those goods that require for their production an advance of foregoing labour show a surplus of exchange value, it is just this surplus that remains in the hands of the capitalist-undertaker as profit. If this difference of value did not exist natural interest on capital would not exist either. This difference of value makes it possible, contains it, is identical with it.

Nothing is more easily demonstrated than this, if any proof is wanted of so obvious a fact. Supposing each of three goods requires for its making a year's labour, but a different length of time over which the labour is advanced. The first good requires only one year's advance of the year's labour; the second a ten years' advance; the third a twenty years' advance. Under these circumstances the exchange value of the first good will, and must be, sufficient to cover the wages of a year's labour, and, beyond that, one year's interest on the advanced labour. It is perfectly clear that the same exchange value cannot be sufficient to cover the wages of a year's labour, and a ten or twenty years' interest on the ten or twenty years' advance of labour as well. That interest can only be covered if and because the exchange value of the second and third good is correspondingly higher than that of the first good, although all three have cost an equal amount of labour. The difference of exchange value is clearly the source from which the ten and twenty years' interest flows, and the only source from which it can flow.

Thus this exception to the law of labour-value is nothing less than the chief feature in natural interest on capital. Any one Who would explain natural interest must, in the first place, explain this; without an explanation of the exception [t]here can be no explanation of the problem of interest. Now if, notwithstanding, in treatises on interest this exception is ignored, not to say denied, it is as gross a blunder as could well be conceived. When Rodbertus ignores the exception, it means nothing else than ignoring the chief part of what he ought to have explained.

Nor can one excuse Rodbertus's blunder by saying that he did not intend to lay down a rule which should hold in actual life, but only a hypothetical assumption by which he might carry through his abstract inquiries more easily and more correctly. It is true that Rodbertus, in some passages of his writings, does clothe the proposition, that the value of all goods is determined by their labour costs, in the form of a simple hypothesis.[46] But, firstly, there are many passages where Rodbertus expresses his conviction that his principle of value also holds in actual economic life.[47] And, secondly, a man may not assume anything that he likes, even as a simple hypothesis. That is to say, even in a purely hypothetical assumption, one may omit only such circumstances of actual fact as are irrelevant to the question under examination. But what is to be said for a theoretical inquiry into interest which at the critical point leaves out the existence of the most important feature; which gets rid of the principal part of what it had to explain with a "let us assume"?

On one point it may be admitted that Rodbertus is right: if we wish to discover a principle like that of land-rent or interest, we must "not let value dance up and down";[48] we must assume the validity of a fixed law of value. But is it not also a fixed law of value that goods which require a longer time between the expenditure of labour and their completion have, *ceteris paribus,* a higher value? And is not this law of value of fundamental importance in relation to the phenomenon of interest? And yet it is to be left out of account like an irregular accident of the circumstances of the market![49]

This singular omission is not without result. On the first result I have already touched. In overlooking the influence of time upon the value of products, Rodbertus could not avoid falling into the mistake of confounding the claim of the labourer to the whole present value of his product with the claim to its future value. Some other consequences we shall encounter shortly.

A fourth criticism which I have to make on Rodbertus is, that his doctrine contradicts itself in important points.

His entire theory of land-rent is based upon the repeatedly and emphatically expressed proposition that the absolute amount of "rent" to be gained in a production does not depend upon the amount of the capital employed, but exclusively upon the amount of labour connected with the production.

Supposing that in a certain industrial production — for example, in a shoemaking business — ten labourers are employed. Each labourer produces per year a product of the value of £100. The necessary maintenance which he receives as wages claims £50 of this sum. Thus, whether the capital employed be large or small, the year's rent (as we shall call it with Rodbertus) drawn by the undertaker will amount to £500. If the capital employed amounts, say to £1000, namely, £500 for wages of labour and £500 for material, then the rent will make up 50 per cent of the capital. If in another production, say a jeweller's business, ten labourers likewise are employed, then, under the assumption that the value of products is regulated by the amount of labour incorporated in them, they also will produce another yearly product of £100 each, of which the half falls to them as wages, while the other half falls to the undertaker as rent. But as in this case the material, the gold, represents a considerably higher value than the leather of the shoemaking business, the total rent of £500 is distributed over a far larger business capital. Assume that the jeweller's capital amounts to £20,000, £500 for wages and £19,500 for material, then the rent of £500 will only show a 2½ per cent interest on the business capital

Both examples are carried out entirely on the lines of Rodbertus's theory.

As in almost every "manufacture" the proportion between the number of the (directly and indirectly) employed labourers and the amount of business capital employed is different, it follows that, in almost every manufacture, business capital must bear interest at the most various possible rates. Now even Rodbertus does not venture to maintain that this is really the case in everyday life. On the contrary, in a remarkable passage in his theory of land-rent, he assumes that, in virtue of the competition of capitals over the whole field of manufacture, an equal rate of profit will become established. I will give the passage in his own words. After remarking that the rent derived from manufacture is considered wholly as profit on capital, since here it is exclusively wealth in the form of capital that is employed, he goes on to say: —

"This, further, will give a rate of profit which will tend to the equalisation of profits, and according to this rate, therefore, must be calculated that profit which, as one part of the rent falling to the raw product, accrues to the capital required for agriculture. For if, in consequence of the universal presence of value in exchange, there now exists a homonymous standard for indicating the ratio between return and resources, this standard, in the case of the portion of rent accruing to the capital employed in manufacture, also serves to indicate the ratio between profit and capital. In other words, it will be right to say that the profit in any trade amounts to ten per cent of the capital employed. This rate will then furnish a standard for the equalisation of profits. In whatever trade this rate indicates a higher profit, competition will cause increased investment of capital, and thereby cause a universal tendency towards the equalising of profits. Similarly no one will invest capital where he does not expect profit corresponding to this rate."

It will repay us to look more closely into this passage.

Rodbertus speaks of competition as that factor which will establish a uniform rate of profit over the field of manufacture. In what manner it will do so is only slightly indicated by him. He assumes that every rate of profit which is higher than the average level is reduced to the average by an increase of the supply of capital; and we may supplement this by saying that every lower rate of profit is raised to the average level by the flowing off of capital.

Let us continue a little farther the consideration of the process from the point at which Rodbertus breaks off. In what manner can an increased supply of capital level down the abnormally high rate of profit? Clearly in this way; that with the increased capital the production of the particular article is increased, and through the increase of supply the exchange value of the product is lowered till such time as after deducting the wages of labour, it only leaves the usual rate of profit as rent. In our above example of the shoemaking business we might evidently have pictured to ourselves the levelling down of the abnormal rate of profit of 50 per cent to the average rate of 5 per cent in the following manner. Attracted by the high rate of profit of 50 per cent, a great many persons will go into the shoemaking business. At the same time those who have been engaged in producing will extend their business. Thus the supply of shoes is increased, and their price and exchange value reduced. This process will continue till such time as the exchange value of the year's product of ten labourers in the shoemaking trade is reduced from £1000 to £550. Then the undertaker, after deducting £500 for necessary wages, has only £50 over as rent, which, distributed over a business capital of £1000, shows interest at the usual rate of 5 per cent. On reaching this point the exchange value of shoes will require to remain fixed if the profit in the shoemaking trade is not to become abnormal again, in which case a repetition of the process of levelling down would ensue.

On the same analogy, if the rate of profit in the jeweller's trade be under the average, say 2½ per cent, it will be raised to 5 per cent in this way. The profit in jewellery being so small, its manufacture will be curtailed, the supply of jewellery thereby reduced and its exchange value raised, till such time as the additional product of ten labourers in the jewellery trade reaches an exchange value of £1500. There now remain to the undertaker, after deducting £500 for necessary wages, £1000 as rent, this being interest on the business capital of £20,000 at the usual rate of 5 per cent. Thus is reached the resting-point at which the exchange value of jewellery, as in the former example the exchange value of shoes, may remain steady.

Before going farther I shall, by looking at the matter from another side, make entirely clear the important point that the levelling of abnormal profits cannot take place without a steady alteration in the exchange value of the products concerned.

If the exchange value of the products were to remain unaltered, then an insufficient rate of profit could only be raised to the normal level if the difference were made up at the cost of the labourers' necessary wages. For example, if the product of ten labourers in the jewellery manufacture retained without alteration the value of £1000, corresponding to the amount of labour expended, then evidently a levelling up of the rate of profit to 5 per cent — that is, an increase in the amount of profit from £500 to £1000 — is only conceivable if the wages which the ten labourers have hitherto received were to be wholly withdrawn, and the entire product handed over to the capitalist as profit. To say nothing of the fact that such a supposition contains in itself a simple impossibility, I need merely point out that it is equally opposed to experience and to Rodbertus's own theory. It is contrary to experience; for experience shows that the usual effect of a restriction of supply in any branch of production is not a depression of the wages of labour, but a raising of the prices of product. And again, experience does not bear witness that the wages of labour, in such trades as require a large investment of capital, stand essentially lower than in other trades — which would necessarily be the case if the demand for a higher profit had to be met from wages instead of from prices of product. And it is also contrary to Rodbertus's own theory. For that theory assumes that the labourers in the long run always receive the amount of the necessary costs of their maintenance as wages — a law which would be sensibly violated by this kind of equalisation.

It is just as easy to show conversely that, if the value of the products remained unaltered, a limitation of profits could only take place by raising the wages of the labourers in the trades concerned above the normal scale, which again, as we have said, is contrary to experience and to Rodbertus's own theory.

I may venture then to claim that I have described the process of the equalisation of profits in accordance with facts, and in accordance with Rodbertus's own hypothesis, when I assume that the return of profits to their normal level is brought about by means of a steady alteration in the exchange value of the products concerned. But if the year's product of ten labourers in the shoemaking trade has an exchange value of £550, and the year's product of ten labourers in the jewellery trade has an exchange value of £1500 — and it must be so if the equalisation of profits assumed by Rodbertus always takes place — what becomes of his assumption that products exchange according to the labour incorporated in them? And if, from the employment of the same amount of labour, there result in the one trade £50, in the other £1000 as rent, what becomes, further, of the doctrine that the amount of rent to be obtained in a production is not regulated by the amount of capital employed, but only by the amount of labour performed in it?

The contradiction in which Rodbertus has involved himself here is as obvious as it is insoluble. Either products do really exchange, in the long run, in proportion to the labour incorporated in them, and the amount of rent in a production is really regulated by the amount of labour employed in it — in which case an equalisation of profits is impossible; or there is an equalisation of the profits of capital — in which case it is impossible that products should continue to exchange in proportion to the labour incorporated in them, and that the amount of labour spent should be the only thing that determines the amount of rent obtainable. Rodbertus must have noticed this very evident contradiction if he had only devoted a little real reflection to the manner in which profits become equalised, instead of dismissing the subject in the most superficial way with his phrase about the equalising effect of competition.

But we are not done with criticism. The whole explanation of land-rent, which, with Rodbertus, is so intimately connected with the explanation of interest, is based upon an inconsistency so striking that the author's carelessness in not observing it is almost inconceivable.

There are only two possibilities here: either, as the effect of competition, an equalisation of profits does take place, or it does not. Assume first that it does take place. What justification has Rodbertus for supposing that the equalisation will certainly embrace the whole sphere of manufacture, but will come to a halt, as if spellbound, at the boundary of raw production? If agriculture promises an attractive profit why should not more capital flow to it? why should not more land be cultivated, or the land be more intensively cultivated, or cultivated by more improved methods, till the exchange value of raw products comes into correspondence with the increased capital now devoted to agriculture, and yields to it also no more than the common rate of profit? If the "law" that the amount of rent is not regulated by the outlay of capital, but only by the amount of labour expended, has not prevented equalisation in manufacture, how could it prevent it in raw production? But what in that case would become of the constant surplus over the usual rate of profit, the land-rent?

Or assume that an equalisation does not take place. In that case, there being no universal rate of profit, then in agriculture, as in everything else, there is no definite rule as to how much "rent" one may calculate as profit of capital. And, finally, there is no division line between capital and rent of land.

Therefore, in either case, whether an equalisation of profits does take place or does not, Rodbertus's theory of land-rent hangs in the air. There is contradiction upon contradiction, and that, moreover, not in trifles, but in the fundamental doctrines of the theory.

My criticism has hitherto been directed to the individual parts of Rodbertus's theory. I may conclude by putting the theory as a whole to the test. If correct, it must be competent to give a satisfactory explanation of the phenomenon of interest as presented in actual economic life, and, moreover, of all the essential forms in which it presents itself. If it cannot do so, it is self-condemned; it is not correct.

I now maintain, and shall attempt to prove, that although Rodbertus's Exploitation theory might possibly account for the interest borne by that part of capital which is invested in wages, it is absolutely impossible for it to explain the interest on that part of capital which is invested in the materials of manufacture. Let the reader judge.

A jeweller, whose chief business it is to make strings of pearls, employs annually five labourers to make strings to the value of £100,000, and sells them on an average in a year's time. He will accordingly have a capital of £100,000 constantly invested in pearls, which, at the usual rate of interest, must yield him a clear annual profit of £5000. We now ask, How is it to be explained that he gets this income?

Rodbertus answers, Interest on capital is a profit of plunder, got by curtailing the natural and just wages of labour. Wages of what labour? Of the five labourers who sorted and strung the pearls? That cannot well be; for if, by curtailing the just wages of the five labourers, one could gain £5000, then the just wages of these labourers must, in any case, have amounted to more than £5000. That is to say, these wages must have amounted, in any case, to more than £1000 per man — a height of just wages that can hardly be taken seriously, especially as the business of sorting and stringing pearls is very little above the character of unskilled labour.

But let us look a little farther. Perhaps it is the labourers of an earlier stage of production from the product of whose labour the jeweller obtains his stolen profit; say the pearl-fishers. But the jeweller has not come into contact at all with these labourers, for he buys his pearls direct from an undertaker of pearl-fishing, or from a middleman; he has therefore had no opportunity whatever of deducting from the pearl-fishers a part of their product, or a part of the value of their product. But perhaps the undertaker of pearl-fishing has done so instead of him, so that the jeweller's profit originates in a deduction which the undertaker of the pearl-fishing has made from the wages of his labourers. That, however, is impossible; for clearly the jeweller would make his profit even if the undertaker of the pearl-fishing had made no deduction whatever from the wages of his labourers. Even if this latter undertaker were to divide among his labourers as wages the whole £100,000 that the pearls so obtained are worth — the whole £100,000 he receives from the jeweller as purchase money — then it only comes to this, that *he* makes no profit. It in no wise follows that the jeweller loses his profit. For to the jeweller it is a matter of complete indifference how this purchase money which he pays is distributed, so long as the price is not raised. Whatever then be the flights of our fancy, we shall seek in vain for the labourers from whose just wages the jeweller's profit of £5000 could possibly have been withheld.

Perhaps, however, even after this illustration there may be some readers still unconvinced. Perhaps they may think it certainly a little strange that the labour of the five pearl stringers should be the source from which the jeweller can exploit so considerable a profit as £5000, but yet not quite inconceivable. Let me therefore bring forward another and still more striking illustration — a good old example by which many an interest theory has already been tested and found false. The owner, of a vineyard has harvested a cask of good young wine. Immediately after the vintage it has an exchange value of £10. He lets the wine lie undisturbed in the cellar, and after a dozen years the wine, now of course an old wine, has an exchange value of £20. This is a well-known fact. The difference of £10 falls to the owner of the wine as interest on the capital contained in the wine. Now who are the labourers that are exploited by this profit of capital?

During the storage there has been no further labour expended on the wine. The only conceivable thing is that the exploitation has been at the expense of those labourers who produced the new wine. The owner of the vineyard has paid them too small a wage. But I ask, How much ought he "in justice" to have paid them as wage? Even if he pays them the entire £10, which was the value of the new wine at the time of harvest, there stills remains to him the increment in value of £10, which Rodbertus brands as profit of plunder. Indeed even if he pays them £12 or £15 as wages, the accusation of plundering will still hang over him; he will only be free from it if he has paid the full £20. Now can any one seriously ask that £20 should be paid as "just wages of labour" for a product that is not worth more than £10? Does the owner know beforehand whether the product will ever be worth £20? Is it not possible that he might be forced, contrary to his original intention, to use or to sell the wine before the expiry of twelve years? And would he not then have paid £20 for a product that was never worth more than £10 or perhaps £12? And then, how is he to pay the labourers who produce that other new wine which he sells at once for £10? Is he to pay them also £20? Then he will be ruined. Or only £10? Then different labourers will receive different wages for precisely similar work, which again is unjust; not to mention the fact that a man cannot very well know beforehand whose product it is that will be sold at once, and whose stored up for a dozen years.

But still further. Even a £20 wage for a cask of new wine would not be enough to protect the vine-grower from the accusation of robbery; for he might let the wine lie in the cellar twenty-four years instead of twelve, and then it would be worth not £20 but £40. Is he then, justly speaking, bound to pay the labourers who, twenty-four years before that, have produced the wine, £40 instead of £10? The idea is too absurd. But if he pays them only £10 or £20, then he makes a profit on capital, and Rodbertus declares that he has curtailed the labourer's just wage by keeping back a part of the value of his product!

I scarcely think any one will venture to maintain that the cases of interest which have been brought forward, and the numerous cases analogous to them, are explained by Rodbertus's theory. But a theory which has failed to explain any important part of the phenomena to be explained cannot be the true one, and so this final examination brings us to the same result as the detailed criticism which preceded it might lead us to expect. Rodbertus's Exploitation theory is, in its foundation and in its conclusions, wrong; it is in contradiction with itself and with the circumstances of actual life.

The nature of my critical task is such that, in the foregoing pages, I could not choose but confine myself to one side — that of pointing out the errors into which Rodbertus had fallen. I consider it due to the memory of this distinguished man to acknowledge, in equally candid terms, his conspicuous merits as regards the development of the theory of political economy. Unfortunately, to dwell on these lies beyond the limits of my present task.

CHAPTER III
MARX

MARX[50] starts from the proposition that the exchange value[51] of all goods is regulated entirely by the amount of labour which their production costs. He lays much more emphasis on this proposition than does Rodbertus. While Rodbertus only mentions it incidentally, in the course of his argument as it were, and puts it very often in the shape of a hypothetical assumption without wasting any words in its proof, Marx makes it his fundamental principle, and goes thoroughly into statement and explication. To be just to the peculiar dialectical style of the author I must give the essential parts of the theory in his own words.

"The utility of a thing gives it a value in use. But this utility is not something in the air. It is limited by the properties of the commodity, and has no existence apart from that commodity. The commodity itself, the iron, corn, or diamond, is therefore a use value or good. . . . Use values constitute the matter of wealth, whatever be their social form. In the social form we are about to consider they constitute at the same time the material substratum of exchange value. Exchange value in the first instance presents itself as the quantitative relation, the proportion in which use values of one kind are exchanged for those of another kind, a relation constantly changing with time and place. Hence exchange value seems to be something accidental and purely relative, and an intrinsic value in exchange seems a contradiction in terms. Let us look at the matter more closely.

"A single commodity, *e.g.* a quarter of wheat, exchanges with other articles in the most varying proportions. Still its exchange value remains unaltered, whether expressed in X boot-blacking, Y silk, or Z money. It must therefore have a content distinct from those various forms of expression. Now let us take two commodities, wheat and iron. Whatever be the proportion in which they are exchangeable, it can always be represented by an equation, in which a given quantity of wheat appears as equal to a certain quantity of iron. For instance, 1 quarter wheat = 1 cwt. of iron. What does this equation tell us? It tells us that there is a common element of equal amount in two different things — in a quarter of wheat and in a cwt. of iron. The two things are therefore equal to a third, which in itself is neither the one nor the other. Each of the two, so far as it is an exchange value, must therefore be reducible to that third. . . . This common element cannot be a geometrical, physical, chemical, or other natural property of the commodities. Their physical properties only come into consideration so far as they make the commodities useful; that is, make them use values! But, on the other hand, the exchange relation of goods evidently involves our disregarding their use value. Within this relation one use value counts for just as much as any other, provided only it be present in due proportion. Or, as old Barbon says, 'one sort of wares is as good as another if the value be equal.' There is no difference or distinction in things of equal value. One hundred pounds' worth of lead or iron is of as great a value as one hundred pounds' worth of silver and gold. As use values, commodities are, first and foremost, of different qualities; as exchange values they can only be of different quantities, and contain therefore not an atom of use value.

"If then we disregard the use value of commodities, they have only one common property left, that of being products of labour. But even as the product of labour they have changed in our hand. For if we disregard the use value of a commodity, we disregard also the special material constituents and shapes which give it a use value. It is no longer a table, a house, yarn, or any other useful thing. All its sensible qualities have disappeared. Nor is it any longer the product of the labour of the joiner, the mason, the spinner, or of any other distinct kind of productive labour. With the useful character of the products of labour disappears the useful character of the labours embodied in them, and also the different concrete forms of these labours; they are no longer distinguished from each other, but are all reduced to equal human labour, abstract human labour.

"Consider now what is left. It is nothing but the same immaterial objectivity, a mere congelation of homogeneous human labour, *i.e.* of labour power expended without regard to the form of its expenditure. All that these things now tell us is that human labour was expended in their production, that human labour is stored up in them; as crystals of this common social substance they are — Values. . . . A use value or good, therefore, only has a value because abstract human labour is objectified or materialised in it."

As labour is the source of all value, so, Marx continues, the amount of the value of all goods is measured by the quantity of labour contained in them, or in labour time. But not by that particular labour time which the individual who made the good might find necessary, but by the "socially necessary labour time." This Marx explains as the "labour time required to produce a use value under the conditions of production that are socially normal at the time, and with the socially necessary degree of skill and intensity of labour." It is only the quantity of socially necessary labour, or the labour time socially necessary for the making of a use value, that determines the amount of the value. "The single commodity here is to be counted as the average sample of its class. Commodities, therefore, in which equally great amounts of labour are contained, or which could be made in the same labour time, have the same amount of value. The value of one commodity is to the value of every other commodity as the labour time necessary to the production of the one is to the labour time necessary to the production of the other. . . . As values all commodities are only definite amounts of congealed labour time."[52]

Later on I shall try to estimate the value of these fundamental principles which Marx puts forward on the subject of value. In the meantime I go on to his theory of interest.

Marx finds the problem of interest in the following phenomenon. The usual circulation of commodities carried on by the medium of exchange, money, proceeds in this way: one man sells the commodity which he possesses for money, in order to buy with the money another commodity which he requires for his own purposes. This course of circulation may be expressed by the formula, Commodity — Money — Commodity. The starting point and the finishing point of the circulation is a commodity, though the two commodities be of different kinds.

"But by the side of this form of exchange we find another and specifically different form, namely, Money — Commodity — Money; the transformation of money into a commodity and the transformation back again of the commodity into money — buying in order to sell. Money that in its movement describes this circulation becomes capital, and is already capital when it is dedicated to be used in this way. . . . In the simple circulation of commodities the two extremes have the same economic form. They are both commodities. They are also of the same value. But they are qualitatively different use values, as, for instance, wheat and clothes. The essence of the movement consists in the exchange of those products in which the labour of society is embodied. It is different with the circulation M — C — M. At the first glance it looks as if it were meaningless, because tautological. Both extremes have the same economic form. They are both money, and therefore not qualitatively different use values, for money is but the converted form of commodities in which their different use values are lost. First to exchange £100 for wool, and then to exchange the same wool again for £100 — that is, in a roundabout way to exchange money for money, like for like — seems a transaction as purposeless as it is absurd. One sum of money can only be distinguished from another sum of money by its amount. The process M — C — M does not owe its character therefore to any qualitative difference between its extremes, since they are both money, but only to this quantitative difference. At the end of the process more money is withdrawn from the circulation than was thrown in at the beginning. The wool bought for £100 is sold again, that is to say, for £100 + £10, or £110. The complete form of this process therefore is M — C — M′, where M′ = M + ΔM; that is, the sum originally advanced plus an increment. This increment, or surplus over original value, I call Surplus Value (*Mehrwerth*). The value originally advanced, therefore, not only remains during the circulation, but changes in amount; adds to itself a surplus value, or makes itself value. And this movement changes it into capital" (p. 132).

"To buy in order to sell, or, to put it more fully, to buy in order to sell at a higher price, M — C — M′, seems indeed the peculiar form characteristic of one kind of capital only, merchant capital. But industrial capital also is money that changes itself into commodities, and by the sale of these commodities changes back into more money. Acts which take place outside the sphere of circulation, between the buying and the selling, do not make any alteration in the form of the movement. Finally, in interest bearing capital the circulation M — C — M′ presents itself in an abridged form, shows its result without any mediation, *en style lapidaire* so to speak, as M — M′; *i.e.* money which is equal to more money, value which is greater than itself" (p. 138).

Whence then comes the surplus value?

Marx works out the problem dialectically. First he declares that the surplus value can neither originate in the fact that the capitalist, as buyer, buys commodities regularly under their value, nor in the fact that the capitalist, as seller, sells them regularly over their value. It cannot therefore originate in the circulation. But neither can it originate outside the circulation. For "outside the circulation the owner of the commodity only stands related to his own commodity. As regards its value the relation is limited to this, that the commodity contains a quantity of the owner's own labour measured by definite social laws. This quantity of labour is expressed in the amount of the value of the commodity produced, and, since the amount of the value is expressed in money, the quantity of labour is expressed in a price, say £10. But the owner's labour does not represent itself in the value of the commodity and in a surplus over its own value — in a price of £10, which is at the same time a price of £11 — in a value which is greater than itself! The owner of a commodity can by his labour produce value, but not value that evolves itself. He can raise the value of a commodity by adding new value to that which is there already, through new labour; as, *e.g.* in making boots out of leather. The same material has now more value, because it contains a greater amount of labour. The boot then has more value than the leather, but the value of the leather remains as it was. It has not evolved itself; it has not added a surplus value to itself during the making of the boot" (p. 150).

And now the problem stands as follows: "Our money owner, who is yet only a capitalist in the grub stage, must buy the commodities at their value, must sell them at their value, and yet at the end of the process must draw out more money than he put in. The bursting of the grub into the butterfly must take place in the sphere of circulation, and not in the sphere of circulation. These are the conditions of the problem. *Hic Rhodus, hic salta!"* (p. 150).

The solution Marx finds in this, that there is one commodity whose use value possesses the peculiar quality of being the source of exchange value. This commodity is the capacity of labour, or Labour Power. It is offered for sale on the market under the double condition that the labourer is personally free, for otherwise it would not be his labour power that would be on sale, but his entire person as a slave; and that the labourer is deprived of "all things necessary for the realising of his labour power," for otherwise he would prefer to produce on his own account, and to offer his products instead of his labour power for sale. It is by trading in this commodity that the capitalist receives the surplus value. In the following way.

The value of the commodity, labour power, like that of all other commodities, is regulated by the labour time necessary for its reproduction; that is, in this case, by the labour time that is necessary to produce as much means of subsistence as are required for the maintenance of the labourer. Say, for instance, that, to produce the necessary means of subsistence for one day, a social labour time of six hours is necessary, and assume that this same labour time is embodied in three shillings of money, then the labour power of one day is to be bought for three shillings. If the capitalist has completed this purchase, the use value of the labour power belongs to him, and he realises it by getting the labourer to work for him. If he were to get him to work only so many hours per day as are incorporated in the labour power itself, and as must have been paid in the buying of the same, no surplus value would emerge. For, according to the assumption, six hours of labour cannot put into the product in which they are incorporated any greater value than three shillings, and so much the capitalist has paid as wage. But this is not the way in which capitalists act. Even if they have bought the labour power for a price that only corresponds to six hours' labour time, they get the worker to labour the whole day for them. And now, in the product made during this day, there are more hours of labour incorporated than the capitalist was obliged to pay for; he has consequently a greater value than the wage he has paid, and the difference is the "surplus value" that falls to the capitalist.

To take an example. Suppose that a worker can in six hours spin 10 lbs. of wool into yarn. Suppose that this wool for its own production has required twenty hours of labour, and possesses, accordingly, a value of 10s. Suppose, further, that during the six hours of spinning the spinner uses up so much of his tools as corresponds to the labour of four hours, and represents consequently a value of 2s. The total value of the means of production consumed in the spinning will amount to 12s., corresponding to twenty-four hours' labour. In the spinning process the wool "absorbs" other six hours of labour; the yarn spun is therefore, on the whole, the product of thirty hours of labour, and will have in conformity a value of 15s. Under the assumption that the capitalist gets the hired labourer to work only six hours in the day, the making of the yarn has cost the capitalist quite 15s. — 10s. for wool; 2s. for wear and tear of tools; 3s. for wage of labour. There is no surplus value here.

Quite otherwise is it if the capitalist gets the labourer to work twelve hours a day for him. In twelve hours the labourer works up 20 lbs. of wool, in which previously forty hours of labour have been incorporated, and which, consequently, are worth 20s.; further he uses up in tools the product of eight hours' labour, of the value of 4s.; but during a day he adds to the raw material twelve hours' labour — that is, a new value of 6s. And now the balance-sheet stands as follows: The yarn produced during a day has cost in all sixty hours' labour; it has therefore a value of 30s. The outlays of the capitalist amounted to 20s. for wool, 4s. for wear and tear of tools, and 3s. for wage; in all, therefore, only 27s. There remains now a "surplus value" of 3s.

Surplus value therefore, according to Marx, is a consequence of the capitalist getting the labourer to work a part of the day for him without paying for it. In the labourer's work day two portions may be distinguished. In the first part, the "necessary labour time," the worker produces the means of his own maintenance, or the value of that maintenance; for this part of his labour he receives an equivalent in wage. During the second portion, the "surplus labour time," he is "exploited"; he produces "surplus value" without receiving any equivalent whatever for it.[53] "Capital is therefore not merely a command over labour, as Adam Smith calls it. It is essentially a command over unpaid labour. All surplus value, in whatever particular form it may afterwards crystallise itself, be it profit, interest, rent, or any other, is in substance only the material shape of unpaid labour. The secret of the power of capital to evolve value is found in its disposal over a definite quantity of the unpaid labour of others" (p. 554).

In this statement the careful reader will have recognised — if partly in a somewhat altered dress — all the essential propositions combined by Rodbertus in his theory of interest: the doctrine that the value of goods is measured by quantity of labour; that labour alone creates all value; that in the loan contract the worker receives less value than he creates, and that necessity compels him to acquiesce in this; that the capitalist appropriates the surplus to himself; and that consequently the profit so obtained has the character of plunder from the produce of the labour of others.

On account of the substantial agreement of both theories, or, to speak more correctly, of both ways of formulating the same theory, almost everything that I have adduced against Rodbertus's doctrine has equal force against Marx. I may therefore limit myself now to some supplementary remarks that I consider necessary; partly for the purpose of adapting my criticism in particular places to Marx's peculiar statement of the theory, partly also for dealing with some new matter introduced by Marx.

Of this by far the most important is the attempt to prove the proposition that all value rests on labour, instead of merely asserting it. In criticising Rodbertus I laid as little emphasis on that proposition as he had done. I was content to point out some undoubted exceptions to it, but I did not go to the root of the matter. In the case of Marx I neither can nor will intermit this. It is true that in doing so I venture on a field already traversed many a time, and by distinguished writers. I can scarcely hope then to bring forward much that is new. But in a book which has for its subject the critical statement of theories of interest, it would ill become me to avoid the thorough criticism of a proposition which has been placed at the head of one of the most important of these theories, as its most important fundamental principle. And, unfortunately, the present position of our science is not such that it can be considered superfluous once more to undertake this task. Although this proposition is, in truth, nothing more than a fallacy once perpetrated by a great man, and repeated ever since by a credulous crowd, in our day it is like to be accepted in widening circles as a kind of gospel.

For the doctrine that the value of all goods depends upon labour, the proud names of Adam Smith and Ricardo have usually been claimed both as authors and authorities. This is correct; but it is not altogether correct. The doctrine is to be found in the writings of both; but Adam Smith now and then contradicts it,[54] and Ricardo so narrows the sphere within which it is valid, and surrounds it with such important exceptions, that it is scarcely justifiable to assert that he has represented labour as the universal and the exclusive principle of value. He begins his *Principles* with the express assertion that the exchange value of goods has its origin in two sources — in their scarcity and in the quantity of labour that their production has cost. Certain goods, such as rare statues and paintings, get their value exclusively from the former source, and it is only the value of those goods that can be multiplied, without any assignable limit, by labour, which is determined by the amount of labour they cost. These latter, indeed, in Ricardo's opinion, constitute "by far the greatest part of those goods which are the objects of desire"; but even in regard to them Ricardo finds himself compelled to a further limitation. He has to admit that, even in their case, the exchange value is not determined exclusively by labour; that time also — the time elapsing between the advancing of the labour and the realising of the finished product — has a considerable influence on it.[55]

It appears then that neither Adam Smith nor Ricardo have stated the principle that stands in their name in such an unqualified way as they generally get credit for. Still, to a certain extent, they have stated it, and we have to inquire on what grounds they did so.

On seeking to answer this question we shall make a remarkable discovery. It is that neither Adam Smith nor Ricardo have given any reason for this principle, but simply asserted its validity as something self-explanatory. The celebrated passage in Adam Smith, which Ricardo afterwards verbally adopted in his own doctrine, runs thus: "The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people."[56]

Let us pause here a moment. The tone in which Adam Smith speaks signifies that the truth of these words must be immediately obvious. But is it really obvious? Are value and trouble really so closely related that the very conception of them at once carries conviction that trouble is the ground of value? I do not think any unprejudiced person will maintain this. That I have given myself trouble about a thing is one fact; that the thing is worth the trouble is another and a different fact; and that the two facts do not always go hand in hand is too well confirmed by experience for any doubt about it to be possible. It is confirmed by every one of the innumerable cases in which, from want of technical skill, or from unsuccessful speculation, or simply from ill-luck, labour is every day being followed by a valueless result. But not less is it confirmed by every one of the numerous cases where little trouble is rewarded with high gains; such as the occupation of a piece of land, the finding of a precious stone, the discovery of a gold mine.

But not to mention cases that may be considered as exceptions from the regular course of things, it is a fact, as indubitable as it is perfectly normal, that the same amount of labour exerted by different persons has a quite different value. The result of one month's labour on the part of a famous artist is, quite regularly, a hundred times more valuable than the same period of labour on the part of a common carpenter. How could that be possible if trouble were really the principle of value? How could it be possible if, in virtue of some immediate psychological connection, we were forced to base our estimate of value on the consideration of toil and trouble, and only on that consideration?[57] Or perhaps it is that nature is so aristocratic that its psychological laws force our spirit to reckon the trouble of a skilled artist a hundred times more valuable than the more modest trouble of a carpenter! I think that any one who reflects for a little, instead of blindly taking it on trust, will be convinced that there is no immediately obvious and essential connection between trouble and value, such as the passage in Adam Smith seems to assume.

But does the passage actually refer to exchange value, as has been tacitly assumed? I do not think that any one who reads it with unprejudiced eye can maintain that either. The passage applies neither to exchange value, nor to use value, nor to any other kind of value in the strict scientific sense. The fact is — as shown by the employment of the expression "worth" instead of value — that in this case Adam Smith has used the word in that very wide and vague sense which it has in everyday speech. And this is very significant. Feeling involuntarily that, at the bar of strictly scientific reflection, his proposition could not be admitted, he turns to the loose impressions of everyday life, and makes use of the ill-defined expressions of everyday life — with a result, as experience has shown, very much to be deplored in the interests of the science.

Finally, how little the whole passage can lay claim to scientific exactitude is shown by the fact that, even in the few words that compose it, there is a contradiction. In one breath he claims for two things the distinctive property of being the principle of "real" value: first, for the trouble that a man can save himself through the possession of a good; second, for the trouble that a man can impose upon other people. But these are two quantities which, as every one knows, are not absolutely identical. Under the regime of the division of labour, the trouble which I personally would be obliged to undergo to obtain possession of a thing I desired is usually much greater than the trouble with which a labourer technically trained produces it. Which of these two troubles, the "saved" or the "imposed," are we to understand as determining the real value?

In short, the celebrated passage where our old master Adam Smith introduces the Labour Principle into the theory of value is as far as possible from being the great and well grounded scientific principle it has usually been considered. It does not of itself carry conviction. It is not supported by a particle of evidence. It has the slovenly dress and the slovenly character of a popular expression. Finally, it contradicts itself. That, notwithstanding this, it found general acceptance is due, in my opinion, to the coincidence of two circumstances; first, that an Adam Smith said it, and, second, that he said it without adducing any evidence for it. If Adam Smith had but addressed a single word in its proof to the intelligence of his readers, instead of simply appealing to their immediate impressions, they would have insisted upon putting the evidence before the bar of their intelligence, and then the absence of all real argument would infallibly have shown itself. It is only by taking people by surprise that such propositions can win acceptance.

Let us see what Adam Smith, and after him, Ricardo, says further. "Labour was the first price — the original purchase money that was paid for all things." This proposition is comparatively inoffensive, but it has no bearing on the principle of value.

> "In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If, among a nation of hunters, for example, it usually cost twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days' or two hours' labour should be worth double of what is usually the produce of one day's or one hour's labour."

In these words also we shall look in vain for any trace of a rational basis for the doctrine. Adam Smith simply says, "seems to be the only circumstance," "should naturally," "it is natural," and so on, but throughout he leaves it to the reader to convince himself of the "naturalness" of such judgments — a task, be it remarked in passing, that the critical reader will not find easy. For if it is "natural" that the exchange of products should he regulated exclusively by the proportion of labour time that their attainment costs, it must also be natural that, for instance, any uncommon species of butterfly, or any rare edible frog, should be worth, "among a nation of hunters" ten times more than a deer, inasmuch as a man might spend ten days in looking for the former, while he could capture the latter usually by one day's labour. But the "naturalness" of this proportion would scarcely be obvious to everybody!

The result of these considerations may, I think, be summed up as follows. Adam Smith and Ricardo have asserted that labour is the principle of the value of goods simply as an axiom, and without giving any evidence for it. Consequently any one who would maintain this principle must not look to Adam Smith and Ricardo as guaranteeing its truth, but must seek for some other and independent basis of proof.

Now it is a very remarkable fact that of later writers scarcely any one has done so. The men who in other respects sifted the old-fashioned doctrine inside and out with their destructive criticism, with whom no proposition, however venerable with age, was secure from being put once more in question and tested, these very men have not uttered a word in criticism of the weightiest principle that they borrowed from the old doctrine. From Ricardo to Rodbertus, from Sismondi to Lassalle, the name of Adam Smith is the only guarantee thought necessary for this doctrine. No writer adds anything of his own but repeated asseverations that the proposition is true, incontrovertible, indubitable; there is no real attempt to prove its truth, to meet objections, to remove doubts. The despisers of proof from authority content themselves with appealing to authority; the sworn foes of unproved assumptions and assertions content themselves with assuming and asserting. Only a very few representatives of the Labour Value theory form any exception to this rule; one of these few, however, is Marx.

An economist looking for a real confirmation of the principle in question might proceed in one of two directions; he might either attempt to develop the proof from grounds involved in its very statement, or he might deduce it from experience. Marx has taken the former course, with a result on which the reader may presently form his own opinion.

I have already quoted in Marx's own words the passages relative to the subject. The line of argument divides itself clearly into three steps.

First step. Since in exchange two goods are made equal to one another, there must be a common element of similar quantity in the two, and in this common element must reside the principle of Exchange value.

Second step. This common element cannot be the Use value, for in the exchange of goods the use value is disregarded.

Third step. If the use value of commodities be disregarded there remains in them only one common property — that of being products of labour. Consequently, so runs the conclusion, Labour is the principle of value; or, as Marx says, the use value, or "good," only has a value because human labour is made objective in it, is materialised in it.

I have seldom read anything to equal this for bad reasoning and carelessness in drawing conclusions.

The first step may pass, but the second step can only be maintained by a logical fallacy of the grossest kind. The use value cannot be the common element because it is "obviously disregarded in the exchange relations of commodities, for" — I quote literally — "within the exchange relations one use value counts for just as much as any other, if only it is to be had in the proper proportion." What would Marx have said to the following argument?

In an opera company there are three celebrated singers — a tenor, a bass, and a baritone — and these have each a salary of £1000. The question is asked, What is the common circumstance on account of which their salaries are made equal? And I answer, In the question of salary one good voice counts for just as much as any other — a good tenor for as much as a good bass or a good baritone — provided only it is to be had in proper proportion; consequently in the question of salary the good voice is evidently disregarded, and the good voice cannot be the cause of the good salary.

The fallaciousness of this argument is clear. But it is just as clear that Marx's conclusion, from which this is exactly copied, is not a whit more correct. Both commit the same fallacy. They confuse the disregarding of a genus with the disregarding of the specific forms in which this genus manifests itself. In our illustration the circumstance which is of no account as regards the question of salary is evidently only the special form which the good voice assumes, whether tenor, bass, or baritone. It is by no means the good voice in general. And just so is it with the exchange relations of commodities. The special forms under which use value may appear, whether the use be for food, clothing, shelter, or any other thing, is of course disregarded; but the use value of the commodity in general is never disregarded. Marx might have seen that we do not absolutely disregard use value from the fact that there can be no exchange value where there is not a use value — a fact which Marx himself is repeatedly forced to admit[58]

But still worse fallacies are involved in the third step of the demonstration. If the use value of commodities is disregarded, says Marx, there remains in them only one common property — that of being products of labour. Is this true? Is there only one property? In goods that have exchange value, for instance, is there not also the property of being scarce in proportion to the demand? Or that they are objects of demand and supply? Or that they are appropriated? Or that they are natural products? For that they are products of nature just as they are products of labour no one declares more plainly than Marx himself, when in one place he says, "Commodities are combinations of two elements, natural material and labour;" or when he incidentally quotes Petty's expression about material wealth, "Labour is its father and the earth its mother."[59]

Now why, I ask, may not the principle of value reside in any one of these common properties, as well as in the property of being the product of labour? For in support of this latter proposition Marx has not adduced the smallest positive argument. His sole argument is the negative one, that the use value, thus happily disregarded and out of the way, is not the principle of exchange value. But does not this negative argument apply with equal force to all the other common properties overlooked by Marx? Wantonness in assertion and carelessness in reasoning cannot go much farther.

But this is not all. Is it even true that in all goods possessing exchange value there is this common property of being the product of labour? Is virgin soil a product of labour? Or a gold mine? Or a natural seam of coal? And yet, as every one knows, these often have a very high exchange value. But how can an element that does not enter at all into one class of goods possessing exchange value be put forward as the common universal principle of exchange value? How Marx would have lashed any of his opponents who had been guilty of such logic![60]

Without doing Marx any wrong then we shall here take the liberty of saying that his attempt to prove the truth of his principle deductively has completely fallen through.

If the proposition that the value of all goods rests on labour is neither an axiom nor capable of proof by deduction, there still remains at least one possibility in its favour; it may be capable of demonstration by experience. To give Marx every chance we shall look at this possibility also. What is the testimony of experience?

Experience shows that the exchange value of goods stands in proportion to that amount of labour which their production costs only in the case of one class of goods, and even then only approximately. Well known as this should be, considering that the facts on which it rests are so familiar, it is very seldom estimated at its proper value. Of course everybody, including the socialist writers, agrees that experience does not entirely confirm the Labour Principle. It is commonly imagined, however, that the cases in which actual facts confirm the labour principle form the rule, and that the cases which contradict the principle form a relatively insignificant exception. This view is very erroneous, and to correct it once and for all I shall put together in groups the exceptions by which experience proves the labour principle to be limited in economic life. We shall see that the exceptions so much preponderate that they scarcely leave any room for the rule.

1. From the scope of the Labour Principle are excepted all "scarce" goods that, from actual or legal hindrances, cannot be reproduced at all, or can be reproduced only in limited

amount. Ricardo names, by way of example, rare statues and pictures, scarce books and coins, wines of a peculiar quality, and adds the remark that such goods form only a very small proportion of the goods daily exchanged in the market. If, however, we consider that to this category belongs the whole of the land, and, further, those numerous goods in the production of which patents, copyright, and trade secrets come into play, it will be found that the extent of these "exceptions" is by no means inconsiderable.[61]

2. All goods that are produced not by common, but by skilled labour, form an exception. Although in the day's product of a sculptor, a skilled joiner, a violin-maker, an engineer, and so on, no more labour be incorporated than in the day's product of a common labourer or a factory operative, the former has a greater exchange value, and often a many times greater exchange value. The adherents of the labour value theory have of course not been able to overlook this exception. Sometimes they mention it, but in such a way as to suggest that it does not form a real exception, but only a little variation that yet comes under the rule. Marx, for instance, adopts the expedient of reckoning skilled labour as a multiplex of common labour. "Complicated labour," he says (p. 19), "counts only as strengthened, or rather multiplied, simple labour, so that a smaller quantity of complicated labour is equal to a greater quantity of simple labour. Experience shows that this reduction is constantly made. A commodity may be the product of the most complicated labour; its value makes it equal to the product of simple labour, and represents therefore only a definite quantity of simple labour."

The naïvety of this theoretical juggle is almost stupefying. That a day's labour of a sculptor may be considered equal to five days' labour of a miner in many respects — for instance, in money valuation — there can be no doubt. But that twelve hours' labour of a sculptor actually are sixty hours' common labour no one will maintain. Now in questions of theory — for instance, in the question of the principle of value — it is not a matter of what fictions men may set up, but of what actually is. For theory the day's production of the sculptor is, and remains, the product of one day's labour, and if a good which is the product of one day's labour is worth as much as another which is the product of five days' labour, men may invent what fictions they please; there is here an exception from the rule asserted, that the exchange value of goods is regulated by the amount of human labour incorporated in them. Suppose that a railway generally graduates its tariff according to the distances travelled by persons and goods, but, as regards one part of the line in which the working expenses are peculiarly heavy, arranges that each mile shall count as two, can it be maintained that the length of the distances is really the exclusive principle in fixing the railway tariff? Certainly not; by a fiction it is assumed to be so, but in truth the application of that principle is limited by another consideration, the *character* of the distances. Similarly we cannot preserve the theoretical unity of the labour principle by any such fiction.

Not to carry the matter further, I may say that this second exception embraces a considerable proportion of all bought and sold goods. In one respect, strictly speaking, we might say that almost all goods belong to it. For into the production of almost every good there enters some skilled labour — labour of an inventor, of a manager, of a pioneer, or some such labour — and this raises the value of the good a little above the level which would have been determined if the quantity of labour had been the only consideration.

3. The number of exceptions is increased by those goods — not, it is true, a very important class — that are produced by abnormally badly paid labour. For reasons that need not be discussed here, wages remain constantly under the minimum of subsistence in certain branches of production; for instance, in certain women's industries, such as sewing, embroidering, and knitting. The products of these employments have thus an abnormally low value. There is, for instance, nothing unusual in the product of three days' labour on the part of a white seam worker only fetching as much as the product of two days' labour on the part of a factory worker.

All the exceptions mentioned hitherto take the form of exempting certain groups of goods altogether from the law of labour value, and therefore tend to narrow the sphere of that law's validity. The only goods then left to the action of the law are, those goods which can be produced at will, without any limitations, and which at the same time require nothing hut unskilled labour for their production. But even in this contracted sphere the law of labour value does not rule absolutely. There are some further exceptions that go a great way to break down its strictness.

4. A fourth exception to the Labour Principle may be found in the familiar and universally admitted phenomenon that even those goods, in which exchange value entirely corresponds with the labour costs, do not show this correspondence at every

moment. By the fluctuations of supply and demand, their exchange value is put sometimes above, sonietimes below the level corresponding to the amount of labour incorporated in them. The amount of labour only indicates the point towards which exchange value gravitates — not any fixed point of value. This exception, too, the socialist adherents of the labour principle seem to me to make too light of. They mention it indeed, but they treat it as a little transitory irregularity, the existence of which does not interfere with the great "law" of exchange value. But it is undeniable that these irregularities are just so many cases where exchange value is regulated by other determinants than the amount of labour costs. They might at all events have suggested the inquiry whether there is not perhaps a more universal principle of exchange value, to which might be traceable, not only the regular formations of value, but also those formations which, from the standpoint of the labour theory, appear to be "irregular." But we should look in vain for any such inquiry among the theorists of this school.

5. Apart from these momentary fluctuations, it is clear that in the following case the exchange value of goods constantly diverges, and that not inconsiderably, from the level indicated by the quantity of labour incorporated in them. Of two goods which cost exactly the same amount of social average labour to produce, that one maintains a higher exchange value the production of which requires the greater advance of "previous" labour. Ricardo, as we saw, in two sections of the first chapter of his *Principles,* has spoken in detail of this exception from the labour principle. Rodbertus and Marx ignore, without expressly denying it; indeed they could not very well do so; for that an oak-tree of a hundred years possesses a higher value than corresponds to the half minute's labour required in planting the seed, is too well known to be successfully disputed.

To sum up. The, asserted "law" that the value of goods is regulated by the amount of the labour, incorporated in them, does not hold at all in the case of a very considerable proportion of goods; in the case of the others, does not hold always, and never holds exactly. These are the facts of experience with which the value theorists have to reckon.

What conclusions can an unprejudiced theorist draw from such facts? Certainly not the conclusion that the origin and measure of all value is to be ascribed exclusively to labour. Such a conclusion would be very like deducing the law, All electricity is caused by friction, from the experience that electricity is produced in many ways, and is very often produced by friction.

On, the other hand, the conclusion might very well be drawn that expenditure of labour is one circumstance which exerts a powerful influence on the value of many goods; always remembering that labour is not an ultimate cause — for an ultimate cause must be common to all the phenomena of value — but a particular and intermediate cause. It would not be difficult to find a deductive proof of such an influence, though no deductive proof could be given of the more thoroughgoing principle. And, further, it may be very interesting and very important accurately to trace the influence of labour on the value of goods, and to express the results in the form of laws. Only in doing so we must keep before us the fact that these will be only particular laws of value not affecting the 'universal nature of value. To use a comparison. The law that formulates the influence of labour on the exchange value of goods will stand to the universal law of value in the same relation as the law, The west wind brings rain, stands to a universal theory of rain. West wind is a very general intermediate cause of rain, just as expenditure of labour is a very general intermediate cause of value; but the ultimate cause of rain is as little the west wind; as that of value is the expended labour.

Ricardo himself only went a very little way over the proper limits. As I have shown, he knew right well that his law of value was only a particular law; he knew, for instance, that the value of scarce goods rests on quite another principle. He only erred in so far as he very much over-estimated the extent to which his law is valid, and practically ascribed to it a validity almost universal. The consequence is that, later on, he forgot almost entirely the little exceptions he had rightly made but too little considered at the beginning of his work, and often spoke of his law as if it were really a universal law of value.

It was his shortsighted followers who first fell into the scarcely conceivable blunder of deliberately and absolutely representing labour as the universal principle of value. I say, the scarcely conceivable blunder, for really it is not easy to understand how men trained in theoretical research could, after mature consideration, maintain a principle for which they could find such slight support. They could find no argument for it in the nature of things, for that shows no necessary connection whatever between value and labour; nor in experience, for experience shows, on the contrary, that value for the most part does not correspond with labour expended; nor, finally, even in authority, for the authorities appealed to had never maintained the principle with that pretentious universality now given it.

And this principle, entirely unfounded as it is, the socialist adherents of the Exploitation theory do not maintain as something unessential, as some innocent bit of system building; they put it in the forefront of practical claims of the most aggressive description. They maintain the law that the value of all commodities rests on the labour time incorporated in them, in order that the next moment they may attack, as "opposed to law," "unnatural," and "unjust," all formations of value that do not harmonise with this "law," — such as the difference in value that falls as surplus to the capitalist — and demand their abolition. Thus they first ignore the exceptions in order to proclaim their law of value as universal. And, after thus assuming its universality, they again draw attention to the exceptions in order to brand them as offences against the law. This kind of arguing is very much as if one were to assume that there are many foolish people in the world, and to ignore that there are also many wise ones; and thus coming to the "universally valid law"' that "all men are foolish," should demand the extirpation of the wise on the ground that their existence is obviously "contrary to law"!

I have criticised the law of Labour Value with all the severity that a doctrine so utterly false seemed to me to deserve. It may be that my criticism also is open to many objections. But one thing at any rate seems to me certain: earnest writers concerned to find out the truth will not in future venture to content themselves with asserting the law of labour value as has been hitherto done.

In future any one who thinks that he can maintain this law will first of all be obliged to supply what his predecessors have omitted — a proof that can be taken seriously. Not quotations from authorities; not protesting and dogmatising phrases; but a proof that earnestly and conscientiously goes into the essence of the matter. On such a basis no one will be more ready and willing to continue the discussion than myself.

To return to Marx. Sharing in Rodbertus's mistaken idea that the value of all goods rests on labour, he falls later on into almost all the mistakes of which I have accused Rodbertus. Shut up in his labour theory Marx, too, fails to grasp the idea that Time also has an influence on value. On one occasion he says expressly that, as regards the value of a commodity, it is all the same whether a part of the labour of making it be expended at a much earlier point of time or not.[62] Consequently he does not observe that there is all the difference in the world whether the labourer receives the final value of the product at the end of the whole process of production, or receives it a couple of months or years earlier; and he repeats Rodbertus's mistake of claiming now, in the name of justice, the value of the finished product as it will be *then.*

Another point to be noted is that, in business capital, Marx distinguishes two portions; of which one, in his peculiar terminology called Variable capital, is advanced for the wages of labour; the other, which he calls Constant capital, is advanced for the means of production. And Marx maintains that only the amount of the variable capital has any influence on the quantity of surplus value obtainable,[63] the amount of the constant capital being in this respect of no account.[64] But in this Marx, like Rodbertus before him, falls into contradiction with facts; for facts show, on the contrary, that, under the working of the law of assimilation of profits, the amount of surplus value obtained stands, over the whole field, in direct proportion to the amount of the total capital — variable and constant together — that has been expended. It is singular that Marx himself became aware of the fact that there was a contradiction here,[65] and found it necessary for the sake of his solution to promise to deal with it later on.[66] But the promise was never kept, and indeed could not be kept.

Finally, Marx's theory, taken as a whole, was as powerless as Rodbertus's to give an answer even approximately satisfactory to one important part of the interest phenomena. At what hour of the labour day does the labourer begin to create the surplus value that the wine obtains, say between the fifth and the tenth year of its lying in the cellar? Or is it, seriously speaking, nothing but robbery — nothing but the exploitation of unpaid labour — when the worker who sticks the acorn in the ground is not paid the full £20 that the oak will be worth some day when, without further labour of man, it has grown into a tree?

Perhaps I need not go farther. If what I have said is true, the socialist Exploitation theory, as represented by its two most distinguished adherents, is not only incorrect, but, in theoretical value, even takes one of the lowest places among interest theories. However serious the fallacies we may meet among the representatives of some of the other theories, I scarcely think that anywhere else are to be found together so great a number of the worst fallacies — wanton, unproved assumption, self-contradiction, and blindness to facts. The socialists are able critics, but exceedingly weak theorists. The world would long ago have come to this conclusion if the opposite party had chanced to have had in its service a pen as keen and cutting as that of Lassalle and as slashing as that of Marx.

That in spite of its inherent weakness the Exploitation theory found, and still finds, so much credence, is due, in my opinion, to the coincidence of two circumstances. The first is that it has shifted the struggle to a sphere where appeal is usually made to the heart as well as to the head. What we wish to believe we readily believe. The condition of the labouring classes is indeed most pitiful; every philanthropist must wish that it were bettered. Many profits do in fact flow from an impure spring; every philanthropist must wish that such springs were dried up. In considering a theory whose conclusions incline to raise the claims of the poor, and to depress the claims of the rich — a theory which agrees partly, or it may be entirety, with the wishes of his heart — many a one will be prejudiced in its favour from the first, and will relax a great deal of the critical severity that, in other circumstances, he would have shown in examining its scientific basis. And it need scarcely be said that theories such as these have a strong attraction for the masses. Their concern is not with criticism; they simply follow the line of their own wishes. They believe in the Exploitation theory because it is agreeable to them, and although it is false; and they would believe in it even if its theoretical argument were much worse than it is.

A second circumstance that helped to spread the theory was the weakness of its opponents. So long as the scientific opposition to it was led chiefly by men who adhered to the Abstinence theory, the Productivity theory, or the Labour theory of a Bastiat or M'Culloch, a Roscher or Strasburger, the battle could not go badly for the socialists. From positions so faultily chosen these men could not strike at the real weaknesses of Socialism; it was not too difficult to repel their lame attacks, and to follow the fighters triumphantly into their own camp. This the socialists were strong enough to do, with as much success as skill. If many socialistic writers have won an abiding place in the history of economic science, it is due to the strength and cleverness with which they managed to destroy so many nourishing and deeply-rooted erroneous doctrines. This is the service, and almost the only service, which Socialism has rendered to our science. To put truth in the place of error was beyond the power of the Exploitation theorists — even more than it was beyond the power of their much abused opponents.

ENDNOTES

[1] *Civil Government,* book ii. chap. v. § 40: "Nor is it so strange, as perhaps before consideration it may appear, that the property of labour should be able to overbalance the community of land; for it is labour indeed that put the difference of value on everything; and let any one consider what the difference is between an acre of land planted with tobacco or sugar, sown with wheat or barley, and an acre of the same land lying in common without any husbandry upon it, and he will find that the improvement of labour makes the far greater part of the value. I think it will be but a very modest computation to say that of the products of the earth useful to the life of man nine-tenths are the effect of labour, nay, if we will rightly estimate things as they come to our use, and cast up the several expenses about them, what in them is purely owing to nature, and what to labour, we shall find that in most of them ninety-nine hundredths are wholly to be put on the account of labour."

[2] *Considerations of the Consequences of the Lowering of Interest,* 1691, p. 24.

[3] *Handlungswissenschaft,* second edition, p. 430.

[4] *Geldumlauf,* book iii. p. 26.

[5] I may give a few characteristic passages: "All the benefits attributed to capital arise from coexisting and skilled labour." After stating that, by the help of tools and machines, more products and better products can be created than without them, he adds the following consideration: "But the question then occurs, What produces instruments and machines, and in what degree do they aid production independent of the labourer, so that the owners of them are entitled to by far the greater part of the whole produce of the country? Are they or are they not the product of labour? Do they or do they not constitute an efficient means of production separate from labour? Are they or are they not so much inert, decaying, or dead matter of no utility whatever, possessing no productive power whatever, but as they are guided, directed, and applied by skilful hands?" (p. 14)

The numerous writers with socialistic tendencies mentioned by Held in the second book of his *Zur sozialen Gcschichte Englands* (Leipzig, 1881) have little direct concern with the theory of interest.

[6] First edition, 1819. Second edition, Paris, 1827. I quote from the latter.

[7] A proposition, however, which Adam Smith himself did not always very consistently adhere to. Besides labour he not seldom mentions land and capital as sources of goods.

[8] [The German word "Unternehmer" literally means undertaker, but in this context it is better translated as "entrepreneur" or "capitalist"].

[9] In these words one may find a very condensed statement of James Mill's labour theory.

[10] See Proudhon's numerous writings *passim,* particularly *Qu'est ce que la propriété?* (1840: in the Paris edition of 1849, p. 162), *Philosophie de la Misère* (pp. 62, 287 of the German translation), *Defence before the Assizes at Besançon on 3d February 1842* (collected edition, Paris, 1868, ii.)

[11] Among his numerous writings, the one in which he expresses his opinions on the interest problem most fully, and which most brilliantly displays his agitator genius, is *Herr Bastiat-Schulze von Delitzsch, der ökonomische Julian, oder Kapital und Arbeit* (Berlin, 1864). The principal passages are these: Labour is "source and factor of all values" (pp. 83, 122, 147). The labourer does not receive the whole value, but only the market price of labour considered as a commodity, this price being equal to its costs of production, that is, to bare subsistence (p. 186, etc.) All surplus falls to capital (p. 194). Interest is

therefore a deduction from the return of the labourer (p. 125, and very scathingly p. 97). Against the doctrine of the Productivity of capital (p. 21, etc.) Against the Abstinence theory (p. 82, etc., and particularly p. 110, etc.) See also Lassalle's other writings.

[12] *Die Lehre vom Einkommmcn in dessen Gesammtzweigen,* 1869. I quote from the second edition of 1878.

[13] *Ibid.* pp. 109, etc., 122, etc. See also p. 271, etc.

[14] *Kursus der National- und Sozialökonomie,* Berlin, 1873, p. 183. A little further on (p. 185), evidently borrowing from Proudhon's *Droit d'Aubaine,* he explains interest as a "toll" imposed in return for the giving over of economic power, the rate of interest representing the rate at which the toll is levied.

[15] [Academic, or university.]

[16] *Der Kredit,* part ii. Berlin, 1879, p. 7.

[17] A tolerably complete list of the writings of Dr. Karl Rodbertus-Jagetzow is to be found in Kozak's *Rodbertus' sozialökonomische Ansichten,* Jena, 1882, p. 7, etc. I have made use by preference of the second and third *Social Letters* to Von Kirchmann in the (somewhat altered) copy published by Rodbertus in 1875, under the name of *Zur Beleuchtung der sozialen Frage;* also of the tract *Zur Erklärung und Abhilfe der heutigen Kreditnoth des Grundbesitzes;* and of the fourth *Social Letter* to Von Kirchmann (Berlin, 1884), published under Rodbertus's bequest by Adolf Wagner and Kozak under the name *Das Kapital.* A few years ago Rodbertus's interest theory was subjected to an extremely close and conscientious criticism by Knies (*Der Kredit,* part ii. Berlin, 1879, p. 47, etc.), with which in its most important points I fully agree. I feel myself, however, bound to take up the task of criticism independently, my theoretic point of view being so different from that of Knies that I cannot help looking at many things in an essentially different light.

[18] *Zur Beleuchtung der sozialen Frage,* pp. 68, 69.

[19] *Soziale Frage,* p. 71.

[20] *Erklärung und Abhilfe,* ii. p. 160 note.

[21] *Soziale Frage,* p. 56; *Erklärung,* p. 112.

[22] *Soziale Frage,* pp. 87 90; *Erklärung,* p. 111; *Kapital,* p. 116.

[23] *Soziale Frage,* p. 146; *Erklärung,* ii p. 109, etc.

[24] *Soziale Frage,* p. 32.

[25] *Ibid.* p. 74, etc.

[26] *Soziale Frage,* p. 33; similarly and more in detail, pp. 77-94.

[27] *Ibid.* p. 115, and other places.

[28] *Ibid.* p. 150; *Kapital,* p. 202.

[29] *Soziale Frage,* pp. 115, 148, etc. See also the criticism of Bastiat, pp. 115-119.

[30] *Ibid.* p. 123, etc.

[31] *Soziale Frage,* p. 106.

[32] *Ibid.* p. 107; similarly pp. 113, 147. *Erklärung,* i. p. 123.

[33] *Soziale Frage,* p. 148.

[34] This illustration is not given by Rodbertus; I only add it to put the difficult line of argument more clearly.

[35] *Soziale Frage,* p. 94, etc.; particularly pp. 109-111. *Erklärung,* i. p. 123.

It may be advisable, in the interest of the English reader, to put this theory of land-rent in a different way.

According to Rodbertns, all rent is a deduction from product, and an exploitation of the labour that produces the product. Both land-rent then and capital-rent (profit) must be accounted for by this deduction, and only by this deduction. Now rent cannot emerge at all unless the necessary resources are provided. The owners give these resources; the labourer works with them; the owner takes his rent from the product, and, naturally enough, calculates it as a percentage on the amount of the resources he provides. In reality, however, rent does not depend on the amount and duration of these resources, but on the amount of labour employed and exploited.

But resources are of two kinds, land and capital. In manufacturing the resources consist of capital alone. The profit exploited from the manufacturing labourers is calculated as a rate on the capital, and comes to be ascribed to the capital. Under the competitive system profits tend to an equality over the whole field, and accordingly we should expect the landowner to get simply the same rent for the resources he lends (land) as the capitalist gets for the resources he lends (capital). But as a fact the landowner gets more; in fact, sufficient to pay another rent, which is properly called land-rent. How is this?

The reason is that in manufacture there are two outlays of capital, one for wages and one for raw materials. But there is only one field of exploitation, wages. There is, then, in manufacturing a portion of capital employed which yields no profit, and the profit that is made in the total manufacture, being calculated on this portion plus the portion employed in paying wages, the rate of profit is lower than it would be otherwise.

Now in agriculture there is indeed only one source of rent or profit, labour, but there is no outlay for raw materials. The profit thus in agriculture is calculated on a smaller capital, and so must leave, over and above the ordinary manufacturing rate of profit, a surplus which is land-rent. — W.S.

[36] *Erklärung,* ii. p. 303.

[37] *Erklärung,* p. 273, etc. In the posthumous tract on "Capital" Rodbertus expresses himself more severely on the subject of private property in capital, and would have it redeemed, if not abolished (p. 116, etc.)

[38] *Soziale Frage,* p. 69.

[39] *Kredit,* part second, p. 60, etc.

[40] *Erklärung und Abhilfe,* ii. p. 160; similarly *Soziale Frage,* p. 69.

[41] *Der Kredit,* part second, p. 69: "What Rodbertus brings forward as his sole reason, viz. that "labour is the only original power, and also the only original cost with which human economy is concerned," is simply, in point of fact, untrue. What surprising blindness it is not to see that in the case of a landlord the effectual power of the soil in our limited fields could not be allowed "to lie dead" by uneconomic men, could not be wasted in growing weeds, etc. etc. So absurd an opinion would certainly in the long run justify any one in defending the proposition that the loss to a landlord of X acres, and the loss to a people's economy of Y square miles, represents no 'economical loss.'"

[42] See Knies, *Der Kredit,* part second, p. 64, etc.: "A man who wishes to 'produce' coal must not simply dig; he must dig in a particular place; in thousands of places he may perform the same material operation of digging without any result whatever. But if the difficult and necessary work of finding the proper place is undertaken by a separate person, say a geologist; if without some other and 'intellectual power' no shaft is sunk, and so on, how can the 'economic' work be digging only? When the choice of materials, the decision on the proportions of the ingredients, and such like, are made by another person than by him who rolls the pills, are we to say that the economical value of this material body, this medicine, is a product of nothing but the hand labour employed in it?"

[43] Of course I do not mean to put forward the rate of interest as the cause of the smaller valuation of future goods. I know quite well that interest and rate of interest can only be a result of this primary phenomenon. I am not here explaining but only depicting facts.

[44] The appropriateness of these figures, which seem strange at the first glance, will be seen immediately.

[45] More exact criticism on this head I postpone till my second volume. To protect myself against misunderstandings, however, and particularly against the imputation of considering undertaking profit to be a "profit of plunder" when it exceeds the usual rate of interest, I may add a short note.

In the total difference, between value of product and wages expended, which falls to the undertaker, there may possibly be four constituents, essentially different from each other.

1. A premium for risk, to provide against the danger of the production turning out badly. Rightly measured, this will, on an average of years, be spent in covering actual losses, and this of course involves no curtailment of the labourer.

2. A payment for the undertaker's own labour. This of course is equally unobjectionable, and in certain circumstances, as in the using of a new invention of the undertaker, may be very highly assessed without any injustice being done to the labourer.

3. The compensation referred to in the text, viz. the compensation for difference of time between the wage payment and the realising of the final product, this being afforded by the customary interest.

4. The undertaker may possibly get an additional profit by taking advantage of the necessitous condition of the labourers to usuriously force down their wages.

Of these four constituents only the latter involves any violation of the principle that the labourer should receive the whole value of his product.

[46] *E.g. Soziale Frage,* pp. 44, 107.

[47] *Soziale Frage,* pp. 113, 147. *Erklärung und Abhilfe,* i. p. 123. In the latter Rodbertus says: "If the value of agricultural and manufacturing product is regulated by the labour incorporated in it, as always happens on the whole, even where commerce is free," etc.

[48] *Ibid.* p. iii. n.

[49] The above was written before the publication of Rodbertus's posthumous work, *Capital,* in 1884. In it Rodbertus takes an exceedingly strange position towards our question — a position which calls rather for a strengthening than a modification of the above criticism. He strongly emphasises the point that the law of labour value is not an exact law, but simply a law that determines the point towards which value will gravitate (p. 6, etc.) He even owns in as many words that, on account of the undertaker's claim on profit, a constant divergence takes place between the actual value of the goods and their value as measured by labour (p. 11, etc.) Only he makes the extent of this concession much too trifling when he assumes that the deviation obtains only in the relations of the different stages of production of one and the same good; and that the deviation does not obtain in the case of all the stages of production as a whole. That is, if the making of a good is divided into several sections of production, of which each section develops into a separate trade, according to Rodbertus the value of the separate product which is made in each individual section cannot remain in exact correspondence with the quantity of labour expended on it; because the undertakers of the later stages of production have to make a greater outlay for material, and therefore a greater expenditure of capital, and on that account have to calculate on a higher profit, which higher profit can only be provided by a relatively higher value of the product in question.

However correct this is, it is clear that it does not go far enough. The divergence of the actual value of goods from the quantity of labour expended does not take place only between the fore-products of one good in relation to each other, in such a way that, in the course of the various stages of production, it cancels itself again through reciprocal compensation, and so the final result of all the stages of production, the goods ready for consumption, obeys the law of labour-value. On the contrary, the amount and the duration of the advance of capital definitively forces the value of all goods away from exact correspondence with their labour costs. To illustrate. Say that the production of a commodity requiring ninety days for its manufacture is divided into three stages of thirty days' labour in each. Rodbertus would say that the product of the first thirty days' labour might only attain the value of twenty-five days' labour, while the second thirty attained the value of thirty days', and the third thirty of thirty-five days' labour. But on the whole the final value of the product would be equal to ninety days' labour. But it is a matter of common experience that, in normal successive production, the value of such a commodity will increase during the three stages by a definite amount, say 30+31+32, and that the final product will be equal to, say, ninety-three days of labour; *i.e.* a value greater than the value of the labour incorporated in it by the amount of the customary interest.

Besides this, Rodbertus deserves the severest censure that, in spite of his own admission, he always persists in developing the law of the distribution of all goods in wages and rent under the theoretical hypothesis that all goods possess "normal value"; that is, a value that corresponds to their labour costs. He thinks he is justified in doing this because the "normal value, in regard to the derivation both of rent in general and of land-rent and capital-rent in particular, is the least captious; it alone does not quietly beg the question, and assume what was first to be explained by it, as every value does in which is included beforehand an element for rent."

Here Rodbertus is grievously mistaken. He begs the question quite as improperly as any of his opponents ever did; only in an opposite way. His opponents, by their assumptions, have begged the question of the existence of interest. Rodbertus has begged the question of its non-existence. In taking no notice of the constant divergence from "normal value" (which divergence gives natural interest its source and its nourishment), he himself altogether abstracts the chief feature in the phenomenon of interest.

[50] *Zur Kritik der politischen-Oekonomie,* Berlin, 1859. *Das Kapital, Kritik der politischen-Oekonomie,* vol. i. first edition, Hamburg, 1867; second edition, 1872. English translation by Moore and Aveling, Sonnenschein, 1887. I quote from *Das Kapital* as the book in which Marx stated his views last and most in detail. On Marx also Knies has made some very valuable criticisms, of which I make frequent use in the sequel. Most of the other attempts to criticise, and refute Marx's work are so far below that of Knies in value that I have not found it useful to refer to them.

[51] With Marx simply called Value.

[52] *Das Kapital,* second edition, p. 10, etc.

[53] *Das Kapital,* p. 205, etc.

[54] *E.g.* when in the fifth chapter of the second book he says of the farmer: "Not only his labouring servants, but his labouring cattle are productive labourers;" and further, "In agriculture too Nature labours along with man, and though her labour costs no expense, its produce has its value as well as that of the most expensive workmen." See also Knies, *Der Kredit,* part ii. p. 62.

[55] See above, p. 354, and Knies as before, p. 60, etc.

[56] *Wealth of Nations,* book i. chap. v. (p. 13 of M'Culloch's edition); Ricardo, *Principles,* chap. i.

[57] Adam Smith gets rid of the difficulty mentioned in the text as follows: "If the one species of labour requires an uncommon degree of dexterity and ingenuity, the esteem which men have for such talents will naturally give a value to their produce superior to what would be due to the time employed about it. Such

talents can seldom be acquired, but in consequence of long application and the superior value of their produce may frequently be more than a reasonable compensation for the time and labour which must be spent in acquiring them" (book i. chap, vi.)

The insufficiency of this explanation is obvious. In the first place, it is clear that the higher value of the products of exceptionally skilled men rests on a quite different foundation from the "esteem which men have for such talents." How many poets and scholars does the public leave to starve in spite of the very high esteem which it pays to their talents, and how many unscrupulous speculators has it rewarded for their adroitness by hundreds of thousands, although it has no esteem whatever for their "talents"! But suppose esteem were the foundation of value, in that case the law that value depends on trouble would evidently not be confirmed but violated. If, again, in the second of the above sentences, Adam Smith attempts to trace that higher value to the trouble expended in acquiring the dexterity, by his insertion of the word "frequently" he confesses that it will not hold in all cases. The contradiction therefore remains.

[58] For instance, in p. 15 at the end: "Finally, nothing can be valuable without being an object of use. If it is useless the labour contained in it is also useless; it does not count as labour (sic), and therefore confers no value." Knies has already drawn attention to the logical blunder here criticised (*Das Geld,* Berlin, 1873, p. 123, etc.)

[59] *Das Kapital,* p. 17 etc.

[60] See also on the subject Knies, *Das Geld,* p. 121.

[61] See also Knies, *Kredit,* part ii. p. 61.

[62] P. 175.

[63] "The rate of surplus value and the value of labour power being given, the amounts of surplus value produced are in direct ratio with the amounts of variable capital advanced. . . . The value and the degree of exploitation of labour power being equal, the amounts of value and surplus value produced by various capitals stand in direct ratio with the amounts of the variable constituent of these capitals; that is, of those constituents which are converted into living labour power" (p. 311, etc.)

[64] "The value of these contributory means of production may rise, fall, remain unchanged, be little or much, it remains without any influence whatever in producing surplus value" (p. 312).

[65] Pp. 204, 312.

[66] Pp. 312, 542 at end.