



On the Labour Theory of Value in Marx and in the Marxist Tradition*

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I. Introduction

1. Sraffa's work has succeeded in bringing again to light the approach to distribution and value which was that of the English classical economists up to Ricardo and which had been subsequently 'submerged and forgotten'¹ – an approach founded on the notion of the surplus of which the community can dispose out of its production beyond what is *physically necessary for reproduction*, i.e. the replacement of the means of production and the subsistence of workers. It has thus become possible to use this approach for an effective critique of the marginalist neoclassical or demand and supply system, which towards the end of the nineteenth century had succeeded in supplanting what then remained of the classical approach.² It has also become possible to revive and develop the approach with respect to present problems, showing the existence of an advanced, consistent alternative to the still dominant, but ailing, neoclassical system.

This classical approach is in fact that which provided the analytical basis of Marx's 'critique of political economy', and was brought by him to the highest overall level of technical development it reached before its present-day revival. This rediscovery of an analysis which was that of Marx – 'submerged' as we said, rather than abandoned after informed criticism – might therefore have been expected to bring Marx's analysis back to that centre of scientific economics to which it always belonged. It seems instead to have been widely interpreted, paradoxically enough, as causing a 'crisis' in this analysis.

With the many basic problems yet to be solved at the time of Marx, and with over a century having gone by since the theory was last intensively cultivated, its revival could hardly fail going together with changes. But in fact a single change appears to be responsible for the above paradoxical opinion. The change consists of a more complete solution of the problem of relative prices raised by that approach (it is, we may note, a problem which both Ricardo and Marx well knew they had left partly unresolved): the change, that is, which with considerable oversimplification and schematism has been described as a 'rejection' of Ricardo and Marx's labour theory of value.³

*Pierangelo Garegnani was in the process of revising this paper at the time of his death in 2011. The essay has been prepared for publication by Professor Fabio Petri of the University of Siena. It is presented here as Professor Garegnani left it, save for a few minor typographical and grammatical adjustments. A small number of explanatory remarks have been inserted by the editor in bracketed footnotes.

¹Cfr. Sraffa (1960, p. v). The essence of the approach to distribution and prices of the classical authors was outlined in Sraffa's *Introduction* to his edition of Ricardo's *Principles* (Sraffa 1951, p. xxxi), where the origin of Ricardo's theory of profits is traced in the 'corn ratio' reasoning at the basis of the *Essay on Profits* (Ricardo 1815) with labour then replacing in the *Principles* the corn measurement.

²For the basic differences between the classical or surplus approach and the marginalist or neoclassical system see Garegnani (1960) and (1987).

³In fact, with Marx and, possibly, already with the Ricardo of 'Absolute Value and Exchangeable Value' (Ricardo 1823), the 'labour theory of value' had moved on a good distance from the idea of a proportionality between normal prices and

The misunderstanding can in fact only be explained, we believe, by the complex historical circumstances and social conflicts which came into play after Ricardo and, so to speak, ended by giving to the labour theory of value, in particular to Marx's version of it, a life of its own, independently of the theoretical approach it allowed to develop.

2. The idea that commodities exchange approximately according to the quantity of (homogeneous) labour required for their production has of course always had one of its several primitive justifications in the obvious strong link between competitive commodity prices and the respective expenses of production, and therefore between those prices and the quantities of labour required for the production of the commodities. In the hands of Ricardo, the theory however became the exact tool we shall see for determining the rate of profit and for showing that such a rate was determined once the real wage was given, and that an inverse relation linked the two (see Paragraph 6 below), thus overcoming the inconsistencies and ambiguities of the theory of distribution and relative prices of Adam Smith and his immediate followers. In the phrase often used by Marx, the role of the labour theory of value had been in Ricardo that of revealing the 'inner connection of the bourgeois system' (Marx 1968, Vol. II, p. 165), the connection, that is, between the parts into which the social product is divided among the classes constituting the capitalist system. And it was in this role that Marx inherited the labour theory of value from Ricardo.⁴

As already recalled, both Ricardo and Marx knew perfectly well that their solution was still incomplete, and both struggled to achieve a more complete solution. Marx did indeed carry his solution to a point such that a single other step – the application of prices of production to means of production and wage goods – would have led him to the basic analytical result of the present day revival.

But it is here that the post-Ricardian historical events appear to have been stronger than the pure logic of scientific advance. The social conflicts heralded by the Chartist movement in Britain that then spread all over Europe and beyond had inevitably aroused suspicion of Ricardo's analysis and its potential in exhibiting the conflict between capital and labour – with, also, the ethical overtones which that very conflict had often come to inessentially vest in the labour theory of value (LTV). Hence the tendency in the main stream of academics to move away from what was understood of Ricardo's approach and his theory of value (see Paragraph 13 below). And this diffidence was bound to become dominant when Marx published *Capital*, developing systematically the theory of Ricardo and its implications of social conflict.

It then became natural, if not inevitable, that the criticism addressed to Marx by the alternative marginalist system – into which the movement away from Ricardo then rapidly crystallized – should stress and exploit the confused ethical overtones of the LTV so as to accuse Marx of trying to foist ethical arguments onto an objective scientific

relative quantities of labour embodied, and towards a 'redistribution' of the surplus value between industries. In fact, an exact solution of the determination of the profit rate and relative prices under sufficient general conditions has been provided in terms of quantities of labour employed in the economy with the 'integrated wage goods sector' (Garegnani 1960, Part I, Chapters IV and V; or 1984, pp. 313–320). And with the Standard system (Sraffa 1960, Chapters IV and V) also, the homogeneous physical quantities of Standard commodity can be replaced with the corresponding quantities of labour embodied (just as the labour magnitudes of the 'integrated wage goods system' could be replaced with the physical quantities of the composite 'wage commodity' if that were of any relevance).

⁴See also Engels's analogy between what Lavoisier did in chemistry for the oxygen discovered by Priestley and what Marx did in economics for the surplus value discovered by Ricardo and the classical economists (Engels 1885, pp. 15–16).

context. Indeed, the submergence of classical theory had by that time proceeded sufficiently to make almost incomprehensible the strictly analytical role which the LTV had played in the classical determination of the rate of profit and of relative prices, a role by then ‘submerged’ by the fact that what Marx called ‘vulgar economics’ had stopped at the apparent ‘adding up’ between wages and profits suggested by Adam Smith’s ‘natural price’.⁵

The *same* submergence was on the other hand effective in causing an analogous distortive effect on the opposite side – that of the defence of Marx by the Socialist movement – which generally came from non-academic authors, more versed in sociological or philosophical arguments than in questions of strict economic theory or history of thought. Understandably, the tendency of those Socialist authors was to accept the mainly sociological or ethical grounds which the critics accused Marx of illegitimately foisting onto his analysis of value, while of course tending to somehow share and justify those grounds, thus originating an influential if not dominant Marxist tradition, as we shall here call it.

It was in this way, we believe, that the labour theory of value took on a life of its own, independent of the analysis for which Ricardo and Marx had introduced it. Misleadingly the theory then became the focus of what was in fact the controversy between two wholly different analyses of distribution and prices, with the classical analysis being confusingly subsumed into a labour theory of value, counterposed to an alternative theory under construction also confusingly submitted under a utility theory of value leading to a ‘demand and supply’ theory of relative prices and distribution. This can in fact be seen as an important part of the process of submergence of the classical approach, as it tended to provide, with the LTV counterposed to a utility theory, a misleading criterion of distinction between the two approaches, hiding rather than revealing the essential differences lying first of all in their different logical structure.

With this history in mind, it is not surprising that the advances in the theory of value of the present classical revival should today still be often mistaken for an abandonment of Marx’s analysis rather than understood as the development and revival of it which they in fact are.

3. In the next section of this essay we shall briefly recall the role hinted at here of the labour theory of value in Ricardo’s and Marx’s determination of profits, proceeding in Section III to the relationship between this determination and Marx’s ‘Critique of Political Economy’. Sections IV and V will then deal respectively with Böhm-Bawerk’s critique of Marx’s *Capital* and with Hilferding’s reply, taken here as the main sources of the Marxist tradition described above.

Sections VI to VIII will proceed to critically examine some basic expressions of that tradition. Thus, Section VI will examine Marx’s conception of the ‘fetishism’ of the capitalist mode of production, and its independence from the labour theory of value. Section VII will discuss what some interpretations have made of Marx’s distinction between abstract and concrete labour, fundamental for his critique of ‘vulgar economics’ and the nascent

⁵[Editorial note: Garegnani is alluding here to Adam Smith’s characterization of the natural price as, in the words of Sraffa (1951, p. xxxv), ‘arrived at by a process of *adding up* the wages, profit and rent’, a characterization that obscured the necessary inverse relation between rate of wages and rate of profit (and hence the conflictual nature of the relationship between labour and capital) by making it appear that one rate could increase without a need for the other to decrease, as Garegnani explains at the end of Paragraph 5. See also Paragraphs 10 and 24.]

demand and supply system, while Section VIII will finally argue (or, better, recall) the independence of Marx's own notion of the exploitation of labour from the labour theory of value. This critical examination of the meanings which that Marxist tradition has attributed to Marx's labour theory of value will then help to understand and assess some curious forms which this tradition has taken in order to preserve, in what appears now to be a purely nominal way, the labour theory of value as a basis for those sociological or philosophical meanings, once prices and distribution are admitted to be determined independently of that theory, which would indeed then be no theory at all.⁶

II. The Labour Theory of Value and the Surplus Approach

4. At the basis of Smith's and Ricardo's theory, as generally at the basis of what we have called the surplus approach to value and distribution, there lies, as we have seen, the idea that workers' subsistence is as physically necessary to production as are the means of production. Since wages were then generally identified with subsistence, and in any given society at any period the notion of subsistence can be taken to be given in its social and cultural as well as physiological 'necessities', a central feature of the theoretical approach is that the real wage was taken as given when approaching the determination of profits (for simplicity, we are ignoring here the rent of land).

It is important to note that this does not mean that wages were strictly identified with subsistence: they were not so identified in Smith and Ricardo. However, the element by which wages were thought to participate at times in the surplus, or, possibly, by which they could fall short of subsistence at other times, were in fact viewed as determined by multiple economic and social circumstances which, like subsistence itself, could be inductively studied, in a way broadly separate from the determination of profits and relative prices.⁷ Wages could therefore in any case be taken as given in any such determination.

The same *separate* study was thought to be appropriate for what were seen to be the multiple circumstances determining the social product and its composition, which were accordingly also seen as determinable separately from profits and relative prices, and taken as given in the determination of the latter.

In this way the quantities produced, like the real wage, played the role of, so to speak, 'intermediate data' in determining profits and prices, i.e. while taken as given in that determination, they were central objects of study in other parts of the theory. Since the technical conditions of production were also supposed known in such a determination of profits and prices, the given social product implied a given level of labour employment⁸ and hence, with the given real wage, a given share of the real social product was to be allotted to the workers. Consequently, as illustrated in Figure 1, under the present simple assumptions (where a , b , c , indicate the known circumstances), the yearly profits emerged as

⁶[Editorial note: Here Garegnani is referring to the intended content of a planned additional Section IX, which would discuss some recent Marxist redefinitions of the labour theory of value, especially the 'New Interpretation' advanced by Duménil (1983–84) and Foley (2000). As only very incomplete drafts of the beginning of this Section are extant, we have not included that material here.]

⁷See Sraffa (1960, pp. 9–10) on the possible distinction between two elements in the real wage. See also Garegnani (1984, pp. 294–296, 320–321) on the treatment of the real wage as an intermediate datum when both subsistence and surplus elements are present. For a fuller treatment of the above questions, see Garegnani (1960, Part I). For a discussion of some misinterpretations about these separate determinations, see Garegnani (2002).

⁸For the sake of simplicity, we are here ignoring the existence of alternative methods of production for the same commodity.

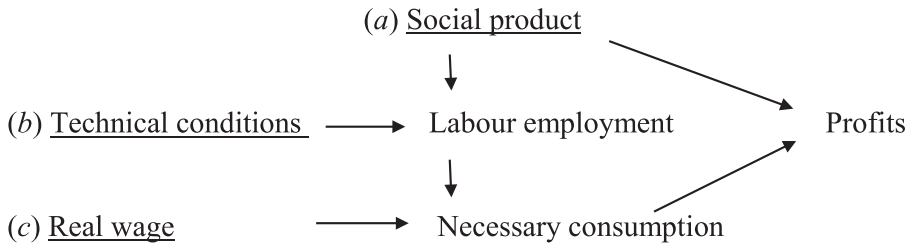


Figure 1. The determination of profits in the classical approach.

the excess of the social product over the replacement of the means of production and wages.

If, then, we identify wages with subsistence, we have the characteristic scheme of the social surplus, with profits as such a surplus of the product over the replacement of the means of production and of the human consumption necessary to such production, and therefore as the only unknown in the following equation:

$$\text{Social product} - \text{Necessary consumptions} = \text{Profits} \quad (1)$$

5. Because of an error which Marx was later to correct,⁹ Ricardo proceeds then to determine the *rate of profit* r as if the entire social capital consisted of the wages advanced at the beginning of the yearly production cycle. We may reconstruct this with the equation

$$r = \frac{P - N}{N} \quad (2)$$

where P stands for the social product, N for the necessary consumption, and r constitutes the only unknown in the equation.

It is here that the basic difficulty of the surplus approach to distribution arises. Since the profit rate r is the ratio between the *value* of the social surplus and the *value* of the necessary consumption, the quantities P and N of equation 2 must be expressed in value terms. But as we have just seen, P and N are known magnitudes when conceived as *physical* quantities of the several commodities; will they also be known magnitudes when we have to express them as value magnitudes?

In his attempt to solve the difficulty, Ricardo has to deal with exchange value and, for this, he has to start from Adam Smith's notion of 'natural price': the sum, that is, of the wages and profits that must be paid in order to produce the commodity, calculated at their 'natural' or 'average' rates in the given situation. In order to overcome the more obvious difficulty due to the variability of the value of money, Smith suggested a 'real' measure of value, consisting of the labour which a commodity can command (if, e.g. one kilogram of bread is worth 50p and one hour of labour 200p, the 'real value' of the bread will be .25 labour hours).

⁹The error is that which Marx described as Ricardo's identification of the rate of profit with the rate of surplus value (e.g. Marx 1968, p. 89). It is an error which comes from Adam Smith who, after correctly arguing that, unlike for the individual producer, for the community as a whole the price of any commodity can be reconducted entirely to wages, profits and rents, somehow thought that this allowed him to reckon the rate of profit as if capital consisted entirely of wages advanced over a single period (Garegnani 1960, pp. 15–17).

When, however, this notion and this measurement of the ‘natural prices’ are adopted in equation 2, we find that the social product, though given in physical terms, will *not* be given in value terms. Let us suppose an economy with 3 million workers assisted, we assume, by means of production so simple that we can ignore them. By definition the yearly necessary consumption advanced at the beginning of the yearly productive cycle will ‘command’ 3 million labour years and its value will accordingly be $N = 3$ m. The ‘natural value’ of the social product will on the other hand be given by those wages (‘necessary consumption’) plus the profits on them at the rate of r per year, and on the assumptions of equation 2 will give $P = 3.3$ m., if $r = 10\%$. But it will be $P = 6.6$ m. if $r = 120\%$, although it remains exactly the same in physical terms. The attempt to determine the rate of profit by means of equation 2 seems then to involve us in circular reasoning: in order to determine r it is necessary to know P which, however, is only known when r is known.

This same variability of P as r varies means, more concretely, that the ‘inner connection of the bourgeois system’ to which we saw Marx referred – i.e. the constraint by which the workers cannot have more without the capitalists having less (Paragraph 2 above), so evident if we could think of the division of the social product in physical terms only – is no longer immediately visible. What, then, suggests itself is rather what Marx called the ‘apparent connection’, i.e. the illusion by which prices seem capable of accommodating the increase in wages without any decrease of the rate of profit. Let us indeed suppose that the real wage increases: what will happen to the rate of profit? If the ‘real’ value of P was 3.3, might it not have remained the same, thus ensuring a constancy at $r = 10\%$, or, possibly, even have increased to 3.6, giving $r = 20\%$?

Smith himself seems to have at times lost sight of the constraint binding wages and profits and, in Marx’s words, envisaged the wage and the profit rate as determined ‘independently and separately’ (Marx 1968, p. 217).¹⁰ And when Ricardo had brought that constraint, and hence the antagonism between wages and profits, to light, it was the above ‘apparent connection’ which the economists whom Marx called ‘vulgar’ relied upon for their attempt to deny the existence of a conflict between capital and wage labour. In Marx’s ironic words:

the outcome of this competition between land, capital and labour finally shows that, although they quarrel with one another over the division, their rivalry tends to increase the value of the product to such an extent that each receives a larger piece, so that their competition, which spurs them on, is merely the expression of their harmony. (Marx 1978a, p. 503)

6. Ricardo’s merit was to break this circularity. This he did by means of a bold hypothesis. Let us suppose that commodities exchange according to the quantity of labour embodied in them, as would be the case if, e.g. all commodities were produced by unassisted labour over yearly cycles with wages advanced at the beginning of the cycle. The ratio between the *value* of the surplus product (the physical surplus) and that of the necessary consumption in equation 2 – i.e. the exchange value of the former (a composite commodity) relative to the latter (a second composite commodity) – will be equal to the ratio between the respective quantities of embodied labour, like any other exchange value in

¹⁰The absence of the later differential theory of rent meant that Smith had to cope with two seemingly independent elements participating in the surplus, which obscured the necessary relation between wages and profits.

the situation. The values of the two aggregates in equation 2 can then be ‘measured’ in terms of embodied labour. In our example above, if the yearly wage of a worker requires 0.5 labour years to be produced, we shall have besides $P = 3$ m., $N = 1.5$ m. and hence $r = (3 - 1.5) / 1.5 = 100\%$; if, however, the real wage increases so as to require $2/3$ of a labour year to be produced, we shall have $N = 2$ m. and r will fall to $(3 - 2) / 2 = 50\%$. There is no more risk of circularity in equation 2 – and no illusion any more that in the given technical conditions real wages might increase without profit decreasing.

7. Marx developed this analysis of the ‘inner connection of the bourgeois system’ by developing the instrument that had made it possible in Ricardo: the labour theory of value. He distinguishes between constant capital and variable capital, thus avoiding Ricardo’s implicit identification between social capital and wages which we have expressed by equation 2. That equation is accordingly replaced by

$$r = \frac{s}{c + v} \quad (3)$$

where c , the labour embodied in the means of production, appears alongside the ‘variable capital’ v (Ricardo’s N), and the ‘surplus value’ s (Ricardo’s $P - N$).

What chiefly interests us here, however, is a second advance of Marx with respect to Ricardo: his theory of the ‘prices of production’. Commodities do not exchange according to the quantities of labour embodied in them, but Ricardo’s analysis had in fact remained confined to that hypothesis. It was left for Marx to attempt a more general treatment, and he came within a single step of a correct solution of the problem. The idea which guides Marx is that the deviation of the exchange ratios of the commodities (‘prices of production’) from the ratios of the quantities of embodied labour (‘values’) is the result of a *redistribution* of the social surplus value s between different industries with capitals of a different ‘organic composition’ c/v which with surplus values proportional only to v would otherwise give different rates of profit.¹¹ Without this ‘redistribution’, surplus values proportional to the v of each sector would always give a different r when put in a ratio to $c + v$, an r that will be the lower, the higher the ‘organic composition’ c/v of the capital value. If a redistribution of surplus value between industries is what is involved, then, it may seem, the general rate of profit cannot but remain that of equation 3, *as if* commodities continued to exchange according to embodied labour. And the ‘prices of production’ of the commodities could then be obtained by applying that rate of profit to the capital employed for their production. In an economy with two commodities only, corn and steel, we would accordingly have the two price equations:

$$\begin{aligned} p_c &= (1 + r)(c_c + v_c) \\ p_s &= (1 + r)(c_s + v_s) \end{aligned} \quad (4)$$

sufficient, Marx thought, for determining p_c and p_s , the level of r being determined by equation 3.

¹¹The idea of a simple redistribution without change of the aggregate was connected with the idea of a *compensation* in the aggregate of the deviations of prices from labour embodied, an idea present in Ricardo, in James Mill, in McCulloch, and apparently inescapable at the time, as confirmed by the response to Engels’s challenge in 1884 to solve the transformation problem before the publication of Volume III of *Capital*: all the authors who took up Engels’s challenge came up with some version of the idea of a reciprocal compensation of the deviations in the aggregate. See Petri (1998, pp. 16–19); Garegnani (1991, p. 106).

8. If, however, we remember that the rate of profit is itself a *value in exchange* – that of the surplus product relative to social capital (see Paragraph 6 above) – we realise that Marx's argument could *not* be correct. If commodities in general do not exchange according to embodied labour, there is no reason to expect this to be the case for those two particular (composite) commodities: r will not, therefore, be generally that determined by equation 3 – nor, consequently, will the prices of production be those of equations 4.

Marx got a glimpse of the error from a different angle: he noticed that in equations 4 the variable and constant capitals should have been expressed in terms of prices of production, and not in terms of embodied labour. Let us, then, carry out in our simple example the correction suggested by Marx but never attempted by him in his manuscripts, and see where this leads. If we suppose the variable capital to consist of corn and the constant capital of steel, and, further, that the quantities of each commodity to which the prices p_c and p_s apply embody a labour year, we shall obtain:

$$\begin{aligned} p_c &= (1 + r)(c_c p_s + v_c p_c) \\ p_s &= (1 + r)(c_s p_s + v_s p_c) \end{aligned} \quad (5)$$

It is sufficient to divide both equations by p_c to see that, when a profit rate determined in accordance with equation 3 is introduced, they in fact contain only one unknown, the single relative price p_s/p_c , and accordingly generally contradict each other. The profit rate must be left to be determined by equations 5 themselves. Again, equation 3 turns out to be incorrect. An important consequence of this is, we should note, that it eliminates the *need* to measure the commodities in terms of embodied labour: the magnitudes c_c , v_c , c_s , v_s can indeed be more directly measured in physical quantities of steel and corn, and the same is true whichever the number of commodities constituting variable and constant capital.¹²

III. Marx's Critique of Political Economy

9. But, then, is the role of the labour theory of value in Marx essentially that of more correctly determining the rate of profit and the prices, thus doing away with Smith's inconsistencies? Clearly the affirmative answer to the question is implied already in the term 'theory of value', i.e. 'explanation of relative prices', we use for it. And in fact one cannot go far in studying the phenomena of a market economy without having some solution for the problem of relative commodity prices. To fully understand this affirmative answer it is however necessary to begin by asking what the 'Critique of political economy' was which Marx intended and to which the Marxist tradition in question intends to refer in its interpretation, and what Marx in fact needed to accomplish it.

Marx says:

Economists have a singular method of procedure. There are only two kinds of institutions for them, artificial and natural. The institutions of feudalism are artificial institutions, those of the bourgeoisie are natural institutions ... Thus there has been history, but there is no longer any. (Marx 1978b, p. 115, quoted in *Capital*, Vol. I, Marx 1974a, p. 85n)

¹²The transparency given to the 'inner relation' between wages and profits by equations 2 and 3 can be recovered in a correct form within the classical revival by means of the 'surplus equations method' applicable to the system under sufficiently general conditions, with the Standard system or the 'integrated wage goods sector'; see footnote 3 above.

Basing himself on the historical view of society he had inherited from Hegel, he intends to do with his 'Critique' what the 'economists', even the 'classical' ones, had not done. This is to study bourgeois economic relations in order to discover if and how these relations might enter into conflict with the 'material productive forces of society', engendering those tendencies to a 'material transformation of the economic conditions of production', which Marx thought can be ascertained with the precision of natural science (Marx 1970, p. 21).

Two seem to be the main elements from which Marx derived his conclusion that the capitalist mode of production is no more permanent than those which preceded it. The first is capitalist accumulation, with its consequences, in Marx's view, of ever deeper and more frequent economic crises, of increasing 'centralization' of capital, increasing relative surplus population, etc. The theory of the rate of profit evidently constitutes the basis of this analysis of accumulation insofar as it is necessary in order to ascertain the character, rapidity and consequences of an accumulation process which finds in profits both its source and its incentive. The labour theory of value here plays a fundamental role, but it does so insofar as it is necessary in order to determine and analyse the circumstances (rate of surplus value and organic composition of capital) on which relative prices and, with them, the rate of profit depend.

This is *a fortiori* true for the second main theme from which we may see Marx to derive his conclusions concerning the destiny of capitalism: the conflict between capital and wage labour. The tendencies of capitalist accumulation will make that conflict ever more acute, while strengthening the proletariat up to the point at which the latter will resolve the contrast between the productive forces and the capitalist mode of production by means of the expropriation of capital.¹³ This second theme is one and the same thing as the 'inner connection' we mentioned above (e.g. Paragraph 5). As Marx writes: 'what is the general law which determines the rise and fall of wages and profits in their reciprocal relation? They stand in an inverse ratio to each other', so that 'the interests of capital and the interests of wage labour are diametrically opposed' (Marx and Engels 1950, pp. 89–90).

Also for this second theme the labour theory of value plays a fundamental role, but it plays it as a theory of relative prices and distribution which makes it possible to ascertain this 'inverse relation' with all its implications for the conflict between capital and labour. Already the Marx of 1864 saw here, in this core of scientific economics, the role of the labour theory of value:

It was likewise a great and consistent advance of modern English political economy, that, whilst elevating labour to the position of its *sole* principle, it should at the same time expound with complete clarity the inverse relation between wages and interest on capital, and the fact that the capitalist could normally only gain by pressing down wages and vice versa. (Marx 1977, p. 83)

10. But if the role of the labour theory of value in Marx's 'Critique of political economy' is essentially that of the theory that allows him to determine relative prices so as to conduct his overall analysis of the development of capitalism and of its impermanence, why did he introduce this law by the seemingly *a priori* reasoning of Chapter I of *Capital* Volume I,

¹³'Centralization of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. ... The expropriators are expropriated' (Marx 1974a, p. 715).

postponing to Volume III the treatment of the actual, *normal* exchange relations, the ‘prices of production’?

The main reply to this question has to do with both general method and the specific causes which Marx thought determined the rate of profit. But before dealing with these two main points, we should notice some deficiencies in historical perspective that are often responsible for raising the question in the first place.

Thus, at times it is argued as if Marx, and, one should imagine also Ricardo, had the opportunity to determine relative prices and the rate of profit with some broadly correct theory they could have shared with their contemporaries but then chose instead to use equation 2 or 3 and the labour theory of value for reasons to be explained. In fact, the theory of their contemporaries was generally that descending from the aspect of Adam Smith’s theory which Marx called ‘vulgar’, stopping essentially at the additive view of the relation between wages and profits – exactly the theory whose logical inconsistency, as we just argued, Ricardo was exposing by means of his labour theory of value, thereby bringing out the ‘inner’ conflicting relations between wages and profits. Coming to the same question in recent authors, they seem at times to write as if Ricardo and Marx had at their disposal something like the determination of relative prices and the rate of profit by means of simultaneous price equations, like those of Sraffa and the classical revival and, again, used instead the LTV for reasons to be explained. The fact of the matter, however, is that we have to wait until 1904–1907, for Dmitriev and Bortkiewicz, to find the first emergence of a determination of r on the basis of equations similar to 5, and, even then, their contribution was so much in advance of the times that it was not followed up further until comparatively recent decades. Opinion at the time was rather that the determination of prices resting simply on the definition of natural or normal price would be circular, as it would have to rest on the prices of the means of production in order to determine the prices of the products.

This is not all in regard to an erroneous historical perspective. It is, similarly, often forgotten that, at the time when Marx was writing, the labour theory of value of Ricardo, often in quite inconsistent forms (i.e. without realising or bringing out its incompatibility with Smith’s ‘adding up’), was the broadly accepted theory. We have to wait for the establishment of the marginalist approach in the last decade or two of the nineteenth century to see a drastic change in this situation. When this is remembered, it is less difficult to understand why Marx’s preoccupation in expounding his theory would not be so much that of relating it to ratios in exchange (that relation could, to a large extent, be broadly taken for granted at the time) and thus providing a ‘proof’ of the labour theory of value – it was rather that of introducing, in a way that would be clear from the outset, the *historical character of capitalism* that the ‘economists’ had consistently failed to grasp.

11. We now come to the main reply to the question we raised at the start of the previous paragraph as to why the LTV was introduced in the way it was in Chapter 1 of *Capital*. We saw the central role which the determination of the profit rate plays for Marx’s analysis of accumulation and the conflict between capital and wage labour. Now, if the rate of profit were determined in the way Marx thought, *all of this central part of the analysis would be independent of whether commodities exchanged according to prices of production rather than according to quantities of embodied labour*. Marx could therefore proceed initially as if the commodities exchanged in proportion to the quantities of labour embodied, postponing to Volume III the treatment of prices of production. According to Marx, these

prices could in fact be determined only *after* the rate of profit, and the place for their treatment was naturally that of the problems pertaining to the division of the social surplus value between profits and interest, between profits and the rent of land, etc.¹⁴

This brings us to the other issue, that of the method explaining Marx's treatment of the labour theory of value in Chapter I of *Capital*. In some well-known passages, Marx notes that, in *constructing* a theory, we proceed from the concrete to the abstract, but in expounding it we must proceed in the reverse order. Thus, in constructing the theory, we shall start from the chaos of actually observed prices and individual revenues, to arrive, by abstraction, at the categories of wages, profits and rents and, hence, at their 'natural' or 'average' rates and, further, at the 'natural' or 'normal' prices or 'production prices' corresponding to them, in order finally to look for the explanation of the rate of profit beyond the circularity mentioned above (Paragraph 5), by means of measurements in terms of embodied labour. But in *expounding* the theory we should proceed in the reverse order: i.e. start from the labour measurements, to arrive at the rate of profit and then the 'prices of production'. For Marx to explain the relation between embodied labour and production prices in Chapter 1 of *Capital* would have been as if a physicist treating the fall of heavy objects were to begin, not from the acceleration of gravity, uniform for all objects, but rather from the fact that a feather generally falls to the ground more slowly than a lead ball.

In conclusion, when the question of labour values is placed in its correct historical perspective, and we take into account *both* the way in which Marx thought the rate of profit was determined and normal scientific procedure, the way in which the theory of value is introduced in Chapter 1 of *Capital* does not seem to justify the search for any meanings other than the consistent determination of the rate of profit and of relative prices we described above.

IV. Böhm-Bawerk's Criticism of Marx

12. We have seen how the labour theory of value permitted Ricardo to rescue the determination of profits as a surplus from the circularity which it risked falling into with Adam Smith, and how Marx developed Ricardo's theory of value and profits and made it the basis of his 'Critique of political economy'. We have also seen how the apparently *a priori* way in which value was introduced in Chapter 1 of *Capital* finds its natural explanation when we attempt to place the theory in its proper historical and logical context.

We must now proceed to discuss the subsequent Marxist tradition which came to vest Marx's theory of value with other meanings, not reducible, it is held, to the determination of the rate of profit and prices. We must begin by considering Böhm-Bawerk's criticism of Marx, and Hilferding's reply to it, which appear to have been essential in originating that tradition.

Marx reminds us that 'In the domain of Political Economy, free scientific inquiry meets not merely the same enemies as in all other domains' (1974a, p. 21). As already recalled in our introduction, in the years subsequent to Ricardo's death in 1823, England – the centre

¹⁴Marx will indeed criticise Ricardo for assuming as early as Chapter 1 of his *Principles* the general rate of profit, the existence of which 'would ... have to be explained through a number of intermediary stages' (Marx 1968, p. 174); the 'intermediary stages' to which Marx refers here are those of his theory of the prices of production, by which, as noted in Paragraph 7 above, he had achieved a first, though incomplete general treatment of the problem.

of the development of economic theory at the time – had experienced the Chartist movement and its threat to the established order of society. Among the theorists of that movement were the so-called ‘Ricardian socialists’ who had begun to draw from Ricardo’s lucid analysis of bourgeois economic relations those implications concerning the conflict between capital and wage labour that Marx was later to develop more systematically. This use of Ricardo’s analysis did not fail to provoke hostile reactions. Apart from the passage quoted by Marx in which H. C. Carey asserted that ‘Mr. Ricardo’s system is one of discords’ (Marx 1968, p. 166), we might recall how Foxwell (1899, p. xli) wrote in 1899 of Ricardo as one who ‘did more than any intentionally Socialist author to sap the foundations of that form of society which he was trying to explain.’ It is thus not surprising to observe that the years subsequent to Ricardo’s death marked the beginning of a slow movement away from Ricardo’s approach to value and distribution, entailing its progressive obfuscation – a process which went on for about half a century until what had initially been elements of obfuscation of the classical analysis crystallized into a system alternative to the classical one. The process came rapidly to a head in the period immediately following the 1867 publication of Volume I of *Capital* and the Paris Commune, originating the marginalist system, which was formulated almost simultaneously in several centres and soon became dominant.

13. That obfuscation of the classical approach and, then, the ensuing drastic change in the theoretical climate may explain why many elements of Marx’s work became difficult to comprehend only a few decades after the publication of Volume I of *Capital*; and may thus also help us to understand the kind of reply the Marxist side gave to the marginalist attack when it came. We shall here consider this attack in the form it took in Böhm-Bawerk; in fact, his criticism of Marx seems to have been the most influential because of the prestige of its author, because of its more systematic nature, and because, being expressed in Marx’s language, the reply it received in the same language by Hilferding was destined to become the most influential within the international working-class movement, which looked to its German-speaking component for its theoretical guidance.

Here, it is convenient to distinguish two phases in Böhm-Bawerk’s criticism: the first precedes, and the second follows, the publication of Volume III of *Capital* with its theory of the prices of production.

14. We find the first phase in *Capital and Interest* (1884) which contains Böhm-Bawerk’s systematic examination of all previous theories of interest. Part VI of the book deals with those theories of the rate of interest (rate of profit) which Böhm-Bawerk classifies as ‘theories of exploitation’, among which he includes that of Marx. These theories he characterises by the idea that profits on capital exist because ‘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’ (Böhm-Bawerk 1884, p. 316). According to Böhm-Bawerk, this idea was made all but ‘inevitable’ by the theory according to which ‘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’ (ibid.).

Böhm-Bawerk certainly would have had difficulty tracing in Marx the above notion of exploitation and above all its derivation from this labour theory of value. Indeed Marx explicitly rejected such a derivation in at least one important passage of his *Critique of Political Economy* (Marx 1970, p. 62n, quoted below in Paragraph 27). Böhm-Bawerk’s attribution of it to Marx is accordingly entirely indirect. As we shall presently see, Böhm-

Bawerk supports his argument with texts by the German socialist Rodbertus and then applies his conclusions to Marx as well, on the ground that Marx's chief innovation with respect to those texts was confined to an attempt, in Chapter I of the first volume of *Capital*, to 'prove' (Böhm-Bawerk's term) the proposition that 'all value rests in labour', rather than just 'asserting' it, as Rodbertus had done (Böhm-Bawerk 1884, p. 316).

Böhm-Bawerk starts by identifying the above-mentioned proposition about the *measurement* of value by means of the labour embodied in commodities – a proposition which can be fairly attributed to Marx – with Rodbertus's very different proposition that 'all the goods which have value are the product of human labour and, moreover, when they are considered from the economic viewpoint, *are exclusively the product of human labour*' (Böhm-Bawerk 1884, p. 315), an assertion of unclear meaning and close to one which Marx had in fact explicitly rejected when e.g. he had written that 'it would be wrong to say that labour ... is the only source of the wealth produced by it' (Marx 1970, p. 36).¹⁵ In the second place and even more importantly, Böhm-Bawerk provides no evidence whatsoever for Marx's alleged derivation of the notion of labour exploitation from *his* labour theory of value – where labour *measures* value and is certainly not what *produces* the value of commodities. Such a derivation is only traced by Böhm-Bawerk to the labour values of Rodbertus, who is quoted to have drawn from his labour theory of value the consequence that 'according to the pure idea of justice' the workers have a 'natural and just' claim to the entire product of their labour (Böhm-Bawerk 1884, p. 329).

It was only by this peculiar indirect procedure that Böhm-Bawerk could identify Marx's argument on labour values with the 'utopian' theses of Rodbertus (as Marx would have called them) and then proceed to make the labour theory of value the basis on which the whole of Marx's work stands or falls, as that work was essentially reduced, like that of Rodbertus, to the single point of an 'exploitation theory of interest'. He could thus confine his criticism of Marx to the theory of value. Moreover, the same indirect procedure allowed him to direct the decisive part of his criticism at this alleged basis with respect to the above-mentioned unhappy 'utopian' formulation of the theory.

Böhm-Bawerk's only *direct* criticism of Marx is addressed to what he construes as the latter's 'proof' of the labour theory of value in Chapter I of *Capital*. As we have seen, this idea of a 'proof' in Chapter I of *Capital* is highly misleading but unfortunately somehow became highly influential in the Marxist tradition we are referring to in this essay. Thus, unsurprisingly, Böhm-Bawerk can easily find that chapter wanting as a 'proof'. We find instead no mention whatsoever, in Böhm-Bawerk, of the correct proposition that the rate of profit is determined when the real wage is specified, or of the ensuing inverse relation between the wage and the profit rate which the labour theory of value had allowed Ricardo and Marx to establish, overcoming the deficiencies of Smith's determination of profits (see Paragraphs 5–6 above). In Böhm-Bawerk's background there now lies the marginalist determination of the division between wages and profits, with its different focuses.

15. In *Capital and Interest*, Böhm-Bawerk refers to the 'promise' made by Marx in Volume I of *Capital* to deal with the 'contradiction' between the uniform rate of

¹⁵The passage continues with Marx praising Petty for calling 'labour the father and earth the mother of all wealth' (see the quotation given further below in Paragraph 23 and, more generally, the discussion of Marx's distinction between 'concrete' and 'abstract' labour in Section VII below).

surplus value, entailed by the measurement of value in terms of labour embodied, and the uniform rate of profit established by competition. And he comments (*Capital and Interest* was published a year after Marx's death) that 'the promise was never kept and indeed could not be' (Böhm-Bawerk 1884, p. 390). This made it inevitable that Böhm-Bawerk should again enter the discussion when, ten years later, Volume III of *Capital* appeared, with its theory of the prices of production. Hence, the second phase of his criticism, represented by the long essay *Karl Marx and the Close of His System* (Böhm-Bawerk 1896).

Here we need not deal with this essay in detail. Two observations seem sufficient to indicate how Böhm-Bawerk coped with Marx's Volume III prices of production, without essentially changing his conclusions about Marx's work. The first is that Marx's idea that the rate of profit and, therefore, the prices of production originate from a redistribution of aggregate surplus value is broken down by Böhm-Bawerk into a 'premise' and no less than four distinct 'arguments', thus rendering Marx's reasoning practically incomprehensible. The second observation is that the crux of Böhm-Bawerk's argument, contained in ten out of the essay's 110 pages, shows some awareness of the true difficulties besetting Marx's theory of prices of production, centring around the use of 'values' rather than 'prices of production' in the price equations themselves.¹⁶

V. Hilferding's Reply to Böhm-Bawerk

16. That Böhm-Bawerk's criticism of Marx was not motivated only by the quest for truth must have seemed clear to the Marxist side. But a reply was not easy. Outside the working-class movement, political economy had had almost three quarters of a century to move away from Ricardo and the surplus theories of the classical economists. Within the working-class movement the energies available in the field of economic theory were not abundant, just when the obfuscation of Ricardo's approach and the development of marginalist analysis had made it extremely difficult to understand its inner logical structure.

In particular, the independence of the approach from the vulnerable labour theory of value, which had been the basic instrument of its more advanced phase represented by Ricardo and Marx (see Paragraph 6 above), was anything but clear. Marx's *Theories of Surplus Value* might have shown the way in that respect – especially in the part regarding the Physiocrats who, though they determined the surplus in physical terms, were nonetheless recognised by Marx as founders of the 'classical' approach which was later to become Smith's, Ricardo's and his own (Marx 1968, pp. 44–47). But *Theories of Surplus Value* was published by Kautsky only in 1905–10; and it was not an easily digestible work. It was thus necessary to wait until 1951, when Sraffa advanced his interpretation of Ricardo's corn measurement in the *Essay on Profits*, for the role of the labour value measurements in Ricardo's subsequent *Principles*, and hence in Marx, to be brought to light again (Sraffa 1951, in particular pp. xxx–xxxvii).

Moreover, a refutation of Böhm-Bawerk's identification of Marx's theoretical approach with his labour theory of value would have required, not only *clarity* on the analytical structure of the theory, but also the availability of an exact determination of the rate of

¹⁶See Böhm-Bawerk's criticism of what he reconstructs as Marx's 'fourth argument' on labour values in Böhm-Bawerk (1896). In the course of his criticism, Böhm-Bawerk notices that the determination of aggregate surplus value cannot ignore the fact that wage goods can be sold at 'prices' of production which deviate from 'values', the same point, we may recall, made by Marx in his sketch of a theory of prices.

profit and prices *within* the surplus approach as an alternative to Marx's own imperfect determination; but no such solution was yet available. Nor would it have been easy to carry the attack into the rival camp, which was in fact suffering from a similar shortcoming, only in a much more radical form in connection with its notion of capital as a 'factor of production'. The complex analytical structure of the marginalist system had not yet come sufficiently to light to render this clearly discernible.

It was thus all but inevitable that Hilferding's reply – destined to exercise a considerable influence in the Marxist camp when it finally came, eight years after Böhm-Bawerk's *Karl Marx and the Close of his System* – should essentially accept Böhm-Bawerk's idea that Marx's economic work would stand or fall with the labour theory of value. Unable to defend this theory effectively in its true role of the determination of the rate of profit and of relative prices, he attributed to Marx's 'values' the ulterior meanings we shall presently see. Moreover, since these ulterior meanings of value were treated as the chief characteristic of Marx's work, Hilferding's reply had the effect of weakening the link (which Marx himself had always strongly asserted) between his work and that of the classical political economists, thus effectively conceding an important point to Böhm-Bawerk's interpretations of Marx as a utopian socialist like Rodbertus.

These alleged ulterior meanings of Marx's theory of value had on the other hand a *practical* consequence that may also be noticed. By distinguishing between a 'Marxist' economics and a dominant academic economics based on marginalism in terms of '[two] contrasted and mutually exclusive outlooks upon the whole of social life', it replaced a normal conflict of validity between alternative scientific theories with what was in fact a distinction based on subjective points of view (Hilferding 1904, p. 187).¹⁷ It thus had the result, in a situation of temporary theoretical inferiority, of maintaining Marx's and the classical economists' approach within the working-class movement, thus preserving, up to a point, its future potentialities for development. This practical result could, however, be only temporary: by sterilising theoretical research to a large extent, it left the field open to a hegemony of the marginalist theories outside the working-class movement, and thus to a long-run influence of these theories also within that movement.

17. But let us proceed to an examination of the text itself: Hilferding's essay *Böhm-Bawerk's Criticism of Marx*, published in 1904. It is only in Chapter II of his essay that Hilferding defends Marx's labour theory of value on its true ground: the determination of the rate of profit and of relative prices. There Hilferding accepts however without discussion Böhm-Bawerk's misleading fragmentation of Marx's arguments (see Paragraph 15 above). The result is that the sometimes erroneous reply¹⁸ which he provides to Böhm-Bawerk's criticism does not show a clear understanding of the problems with which Marx (and Ricardo) were grappling, and leaves the theory of profit and prices more obscure and weak than it had been in Marx. It comes as no surprise, then, that Hilferding

¹⁷The distinction between the two kinds of theory in terms of 'mutually exclusive outlooks upon the whole of social life' rather than objective validity is accepted and reinforced by Paul Sweezy who, in his Introduction to Böhm-Bawerk's *Karl Marx and the Close of his System*, writes: 'in my opinion this fundamental difference in outlooks certainly does exist [and] makes it extraordinarily difficult for the two schools of economics to communicate intelligently with each other' (Sweezy 1949, pp. xxi–xxii).

¹⁸Thus Hilferding (1904, p. 160) writes 'It is obvious that the change in the distribution makes no difference in the total amount of surplus value undergoing distribution'; but what follows that misleading 'it is obvious' is not correct: aggregate surplus value does change relative to social capital as it is being distributed.

should have thought that the true basis for Marx's theory of value lay elsewhere, in the argument he treats in Chapters I and III of his essay.

18. Hilferding had indeed started his essay by asserting that 'the analysis of the commodity' in Chapter I of *Capital* contained the answer to the question Böhm-Bawerk had asked: 'What right had Marx to proclaim labour to be the sole creator of value?' (Hilferding 1904, p. 129).

Hilferding accepts here from the very start Böhm-Bawerk's idea according to which, in this chapter, Marx had intended to 'prove' his labour theory of value. With this, we may note, Hilferding directly contradicts Marx, who in a letter already published by the time of Hilferding's essay, had explicitly stated that his entire analysis would have provided the proof of his theory of value, 'even if there were no chapter on value in my book.'¹⁹ Not only this, but Hilferding also contradicts his own successive Chapter II, where he argues that only by measuring the social product in terms of embodied labour can we determine the rate of profit and relative prices (Hilferding 1904, pp. 158–159), a determination which is clearly not contained in Chapter I of *Capital*.

But let us turn to the answer which, in Hilferding's opinion, Marx's chapter would provide to Böhm-Bawerk's question: it seems we can summarise this in the following two closely connected points.

The first point is the idea that only by measuring value in terms of labour can Marx consider the commodity as a 'social thing'. As Hilferding (1904, p. 130) writes: 'the contrasted qualities of the commodity as use-value and as value ... now appears to us to be a contrast between the commodity manifesting itself on the one hand as a *natural* thing and on the other as a *social* thing.' And since 'for society ... the commodity is nothing more than a product of labour', in order to be able to refer to the commodity as a 'social thing' the 'principle of value' cannot, in Hilferding's view, be anything but labour in its form of socially necessary labour (Hilferding 1904, pp. 130, 132).

Hilferding does not seem to support these slippery theses about labour values with arguments other than those exemplified in the above passage. It is not made clear, for example, in what exact sense a different explanation of the ratios in exchange – since it is ratios in exchange that we are ultimately dealing with – would prove or disprove the statement that the commodity is a 'social thing', i.e. it seems, that its production, circulation, and consumption involve relations between individuals organised in society.

19. The second point, which Hilferding closely associates with this first, lies in the idea that Marx has to measure value in terms of embodied labour in order to arrive at the 'law of motion' of capitalist society. As Hilferding (1904, p. 132) writes:

when our task is to effect the economic analysis of any social institution [so] that we may discover the intimate law of motion of the society, and when we call upon the law of value to render us this service, the principle of value cannot be any other than that to whose variations the changes in the social institutions must in the last instance be referred[,]

i.e. Hilferding asserts, labour. What may surprise us in this passage is the association which it establishes between the 'law of motion' of the capitalist system (since this system and not a generic 'social institution' is here in question) and the labour theory of value taken, so to speak, *a priori*: that is, independently of its ability to provide or not a consistent basis for

¹⁹See Marx's letter to Kugelmann of July 1868, published in *Die Neue Zeit* in 1902 (Marx and Engels 1943, p. 246).

an analysis of either the relationship between wages and profits (and hence the conflict between labour and capital), or the tendencies of capitalist accumulation.

The same *a priori* reasoning coupled with uncertainty of meaning emerges from the following passage, dealing with what appears to be essentially the same point:

Marx ... starts from labor ... he thus grasps the factor by whose quality and quantity, by whose organization and productive energy, social life is causally controlled. The fundamental economic idea is consequently identical with the fundamental idea of the materialist conception of history. (Hilferding 1904, p. 133)

It would indeed seem that the sense and way in which labour may or may not ‘causally’ control social life in a capitalist society can only result from the *entire body of the economic analysis*, and it is difficult to see how Hilferding could think it could be decided otherwise.

VI. Marx’s Conception of ‘Fetishism’ in the Capitalist Mode of Production

20. Apart from his general reference to Marx’s ‘analysis of the commodity’ in Chapter I of *Capital* Volume I, Hilferding’s essay lacks the precise references which would have enabled us to discuss the textual basis of his interpretation of Marx’s theory of value. It seems, however, that Hilferding drew inspiration, above all, from the section of that chapter devoted to the ‘fetishism of commodities’.²⁰ To this section we must accordingly turn, however briefly.

Marx’s aim here seems to have been twofold. On the one hand, he was concerned with emphasising, in contrast to the ‘economists’, including the ‘classical’ ones (see Paragraph 9 above), the *historical nature* of commodity production by indicating that exchange value and money are merely elements for a *particular* solution of the *general* problem of the allocation of labour in accordance with society’s needs: the problem, that is, which a patriarchal family or a mediaeval society resolved by different means, or a future egalitarian society would resolve by still other means.

This historical character of commodity production is, on the other hand, closely associated in Marx’s mind with a second point. One fact radically differentiates commodity production and, hence, a capitalist society from other societies. Whereas in these other societies the allocation of labour according to society’s needs is controlled, in the first instance,²¹ by *conscious activity*, in a capitalist society the fact that use-objects are the ‘products of the labour of private individuals or groups of individuals who carry on their work independently of each other’ (Marx 1974a, p. 77), entails that this allocation is done through the market, i.e. it is enforced by *impersonal* forces akin to natural ones. The ‘independence of private labours’ entails that the actors of the capitalist economic process are unable to control the *overall* result of their actions, and this accordingly appears to them as an *objective fact*, analogous to natural facts. In Marx’s words, ‘their own social action takes the form of the action of objects, which rule the producers instead of being ruled by them’ (Marx 1974a, p. 79). Thus, to take an example, no one in particular willed the great slump of the 1930s, any more than anyone ever willed an epidemic or an earthquake.

²⁰See e.g. Hilferding (1904, p. 186): ‘Beneath the husk of economic categories we discover social relationships, relationships of production, wherein commodities play the part of intermediaries ...’

²¹This does not deny of course that such conscious activities can be ultimately determined by objective factors (e.g. the level of productive forces and the resulting dominant social relationships of production) of which that consciousness is an expression.

This impersonal and objective character which economic phenomena assume in commodity production and, hence, in a capitalist society is just what renders *necessary and possible* a science like political economy, an important part of whose task is precisely to explain these impersonal and objective phenomena in terms of the underlying personal and social relations: a task which would have no parallel in the study of any other mode of production, where economic phenomena directly assume a personal or social form so that their explanation accordingly coincides, to a large extent, with the explanation of the *voluntary* actions of which the phenomena are, in the first instance, the result. Precisely this task of political economy implies however that, especially at its outset, political economy may remain prisoner to the falsely natural, ‘fetishist’, appearances assumed by the phenomena it should explain.

21. Is there any justification, then, for Hilferding’s tendency to attribute to the labour theory of value the specific role of dissipating that ‘fetishism’? The answer to this question can, it seems, be negative. Clearly the fact that the relative prices of commodities are related to the quantities of labour necessary to produce them does not by itself explain why economic slumps occur. To throw light on these characteristics of the present economic system to which Marx referred with his concept of ‘fetishism’ is the same as *explaining* the economic phenomena of that system, and is not a specific task of the labour theory of value *taken by itself*.

In particular, it seems illegitimate to connect Marx’s success in dispelling the effects of ‘fetishism’ on political economy with labour values as such. That success should instead be traced to his *overall* explanation of economic phenomena for which, as we have seen (see Paragraph 6 above), the labour theory of value was a main instrument available in Marx’s time. As for today, we seem to be faced with two possibilities in regard to traces of ‘fetishism’ in economic analysis. Either, after another century of economic analysis, they have become much less important than they were in Marx’s time, or, perhaps, they have taken deeper forms which are closely connected with the dominant theoretical system, in which case dispelling them becomes one and the same thing as a critique of this system. In either case, the labour theory of value appears to have no special role to play. Thus, for example, the ‘Physiocratic illusion that rent grows out of the soil and not out of society’ (Marx 1974a, p. 86) and the analogous conception of capital as an ‘independent source of value’ (Marx 1978a, p. 499) either have no parallel in modern political economy or are present in versions which are much less primitive than those faced by Marx, because they now rest on marginalist analysis and the relative factor scarcities contained there. Neither does it seem at all easy to find, nowadays, the illusions by which the mercantilists considered gold and silver as ‘natural objects with strange social properties’ (Marx 1974a, p. 86) and, nowadays, it would be even less easy to forget that ‘the mutual relations of the producers ... take the form of a social relation between the products’ (Marx 1974a, p. 77).

22. It would thus seem difficult to claim, as several Marxist authors have, following in Hilferding’s tracks, and whom we may here exemplify through the work of Lucio Colletti, that ‘the essential problem’ Marx intended to solve with his theory of value was fetishism even ‘prior to that of exchange rates of commodities’ (Colletti 1969, p. 78). The problem of the ratios of exchange, essential as it is for determining the rate of profit and, hence, for the entire analysis of capitalism, would in fact seem to be primary, and not secondary, to characterise certain conceptions as instances of ‘fetishism’ (in just the same way as the

capacity of the heliocentric hypothesis to explain astronomical phenomena would seem primary and not secondary to characterise as illusory the mediaeval and ancient conception of the earth as the centre of the universe).

Moreover, when the analysis of ‘fetishism’ is seen in the terms indicated above, the concern Colletti shows later in regard to the scientific value of what he calls the second Marx, the critic of political economy, appears frankly excessive. Unlike the first Marx, whom Colletti sees as ‘the man who has developed and completed as a *science* the political economy founded by Smith and Ricardo’, that second Marx is said to have ‘intertwined (and overturned)’ the arguments of the classical economists ‘with a theory of alienation’ (Colletti 1975, p. 22) which, being for Colletti one and the same thing as the analysis of fetishism, ‘embraces and encompasses within itself the theory of value’ (ibid., p. 27), thus infecting the latter with its own sin of non-scientificity. In reality, this ‘second Marx’ who develops a theory of value as a thesis for his scientific analysis of fetishism, seems to be, above all, a creation – or ‘fetish’ – of that ‘first’ Colletti, whose opinions on the relation between fetishism and ratios in exchange were exemplified above. The ‘second’ Colletti could easily shake himself free of this ‘fetish’ of his own by recognising that the Marx who has ‘developed and completed’ Smith and Ricardo is precisely the Marx who ‘criticized political economy’ – thereby recognising that this development and completion could not have been achieved by the first Marx without a theory of profits and, therefore, without the ‘unscientific’ labour theory of value ... of Ricardo!

VII. The Distinction between Abstract and Concrete Labour

23. But, along with the connection between labour values and fetishism, Colletti poses the question of the Marxist distinction between concrete and abstract labour, which he views as intended to explain the way in which fetishism operates (Colletti 1969, p. 78) and, hence, as evidence for an interpretation of the labour theory of value which cannot be traced back to the determination of the rate of profit and of exchange values. To this distinction by Marx – which has also often been referred to by other Marxist writers in a perspective similar to Colletti’s – we must now turn.

The central point of the question seems to us to be that the distinction between these two aspects of labour originates from the Ricardian distinction between ‘value’ and ‘riches’, to which Marx in fact refers and that he develops in order to avoid basic analytical errors and confusions that were widespread among his contemporaries. In Chapter XX of the *Principles*, Ricardo (1821, p. 274) had begun by noting that ‘many of the errors in political economy have arisen from errors on this subject, from considering an increase of riches and an increase of value, as meaning the same thing.’ He had then proceeded to consider Say’s accusation that Smith had overlooked ‘that value is owing to ... the industry of man, *combined* with the action of those agents which nature supplies, and with that of capital’ and had therefore wrongly attributed ‘to the labour of man *alone*, the power of producing value’ (ibid., italics added).

To this accusation from Say, Ricardo answered on Smith’s behalf that the ‘value’ which natural agents and machinery confer upon the commodities is *value in use*, and not *exchangeable value*. These agents in fact

are serviceable to us, by increasing the abundance of productions, by making man richer, by adding to value in use; but as they perform their work gratuitously, as nothing is paid for the

use of air, of heat, and of water, the assistance which they afford us, adds nothing to value in exchange. (Ricardo 1821, p. 287)

This reply from Ricardo does not, however, appear altogether convincing. Why indeed identify the services of ‘natural agents’ and ‘machinery’ to which Say referred, and for which payments are surely made to the respective owners, with the totally *free* ‘use of air, of heat, and of water’?²²

Thus Marx appears to be quite justified when he notes how Ricardo had to devote the whole of that chapter ‘to a laborious examination of the trivialities of a Say’, and traces the origin of Ricardo’s difficulties to the absence of a clear distinction between the two aspects of labour which Say confuses in his accusations against Smith (Marx 1974a, p. 84n).

For Ricardo and Marx, in fact, commodities exchange according to ratios which are determined (ultimately) by the quantities of labour embodied, and it is in *this* precise sense that labour – here considered purely as a quantity, and thus of uniform *quality*, i.e. as ‘general, abstract labour’ – is the (only) ‘creator’ of *exchange value*. But there is a second aspect of labour: that which becomes relevant in the labour process where, as ‘useful, concrete labour’, it ‘creates’ *value in use*. For labour so conceived, Marx (1970, p. 36) states that ‘it would be wrong to say that labour which produces use-values is the *only* source of the wealth produced by it, that is of material wealth’, and praises instead William Petty for having called ‘labour the father and earth the mother of wealth’ (ibid., p. 35; see also Marx 1974a, p. 50).

Now, Marx sees the idea concerning the value which natural agents and machinery give to commodities as the result of a confusion in Say between the two aspects of labour, by which that author attributes the ‘creation’ of exchange value not to abstract labour, but rather to ‘concrete’ labour which, as such, creates (use) value *jointly* with land and machinery.

24. The importance of all this for Marx may be understood when we realise that the ‘trivialities of a Say’ were in fact those which characterised all ‘vulgar political economy’ with its ‘trinity formula’ – and, hence, the entire movement away from Ricardo’s approach to value and distribution which had progressed in the years following that author’s death (see Paragraph 16 above). We have already seen how the ‘trinity formula’ for which ‘the rivalry [of land, capital and labour] tends to increase the value of the product’ could thrive on the obfuscation of the constraint binding wages and profits, which had resulted from Adam Smith’s difficulties over the measurement of value (see Paragraph 5 above). We can now see what, in Marx’s view, were the roots of these difficulties: the confusion between *concrete* labour which ‘creates’ value in use *jointly* with natural resources and means of production, and *abstract* labour which ‘creates’ exchange value *alone*.²³

²²In the above passage Ricardo seems however to understand the ‘machinery’ and the ‘natural agents’ to which Say referred, purely as intermediaries of natural forces which, as such, exert their influence gratuitously.

²³To that situation of theoretical transition we may also attribute the importance which Marx gave to the representation of wages as ‘value of labour-power’, rather than ‘value of labour’. The second phrase seems in fact to have had at the time the meaning of ‘value which labour contributes to the commodities’. As Marx (1857–61, pp. 560–561) writes: ‘That from the standpoint of exchange alone, the worker’s pay would have to equal the *value of the product*, i.e. the amount of labour in objective form *which the worker* obtains in pay = the amount of labour in subjective form which he expends in labour, is so necessary a conclusion that A. Smith falls into it.’ And, Marx continues, if Ricardo succeeds in keeping on the right course, it is only at the cost of the ‘strange logic’ of a ‘value of labour’ different from the value created by that labour. By thus suggesting the idea that the value ‘contributed’ by labour to the product is limited to the wages, the representation of the wages as ‘value of labour’ also suggests, Marx appears to think, that land and capital ‘contribute’ the remaining parts of the value of the commodity, consisting of rents and profits. Just like the

It may now also become clear why, for Marx, the recognition of the ‘two-fold character of labour’ could constitute the foundation on which the measurement of value in terms of labour embodied implicitly rests, and hence the classical discovery of the ‘inner connection of bourgeois economic relations’, that is, of the antagonism between wages and profits (see Paragraph 2 above). Finally, it may thus also become clear exactly how Marx could view that recognition of labour’s two-fold character as one of ‘[t]he best points in my book’ (Marx to Engels, 24 August 1867; in Marx and Engels 1987, p. 407) – the same sense in which he had written:

The decisive outcome of the research carried out for over a century and a half by classical political economy ... is an analysis of the aspects of the commodity into two forms of labour time or homogeneous social labour. (Marx 1970, p. 52)

25. The same strictly analytical meaning of the distinction between concrete and abstract labour emerges from the passages in which Marx traces the origin of the error by which economists from Smith down to Marx’s contemporaries tended to ignore ‘the constant part of the value of the annual product’ (i.e. in terms of modern national accounting, the part of the value of the annual total sales which represents the consumption of the means of production). According to Marx, the confusion between concrete and abstract labour was what prevented Smith from seeing that, if it is true that the annual ‘concrete’ labour has created (*jointly* with land and machinery) the *entire annual product*, it is equally true that, as ‘abstract’ labour, it has only created *one part of the value* of the annual product: this is the part added during the year to that other part which has been transferred to the product by the constant capital consumed during the year (and ‘created’ by the abstract labour in the preceding years); see Marx (1974b, pp. 381–382).

26. This treatment of the ‘twofold character of labour’ which permitted Marx thus to clarify the determination of prices, surplus value and rate of profit, also entailed a characterisation of mercantile production. The labour time of the individual producer becomes ‘abstract’ labour only with the sale of the commodities and to the extent to which it has been applied in accordance with the technical conditions dominant in the community (it is ‘socially necessary’ and has been employed in the production of commodities effectively required by the community). In other words, individual labour becomes ‘social’ (i.e. is regulated by society in both the direction and the manner of its application) only by becoming ‘abstract labour’ through exchange: this differs from the way in which individual labour becomes ‘social’ in other modes of production. Marx often used this characterisation of mercantile production²⁴ in order to render evident the utopian character of socialist programmes such as those by Proudhon, Bray and Gray, who thought it possible to eliminate economic crises and the exploitation of labour by means of a ‘national central bank’ which would buy and sell products against ‘certificates’ proportional to the labour effected by the producers (e.g. Marx 1970, p. 83). Marx could easily trace the central

confusion between ‘abstract’ and ‘concrete’ labour and the seeming circularity of the Smithian value measurement (see Paragraph 5 above), this representation of wages as ‘value of labour’ would therefore lead to the ‘trinity formula’ of the ‘vulgar economists’.

²⁴This characterisation of ‘social’ labour in a mercantile society seems to retain its validity within a correct determination of the prices of production. The price of any commodity will depend upon the (quantity of abstract) labour socially necessary for its production and not upon the quantity of labour expended by the individual producer. Moreover, this price will be realised in the markets only to the extent to which the quantity produced does not exceed (to use Smith’s phrase) the ‘effectual demand’ of society.

deficiency of these programmes to the supposition that individual ‘concrete’ labour could, through such a ‘national bank’, become abstract without passing through the market or money, which can alone render the ‘concrete’ labour of independent producers ‘abstract’ by evaluating the products according to the available techniques and social needs.

Marx’s insistence upon these historical contents of the distinction between concrete and abstract labour may perhaps contribute to explaining the misunderstanding as a result of which some authors have interpreted this distinction as the denunciation of an ‘expropriation of human subjectivity’ (Colletti 1969, p. 87) entailed by mercantile production. But this misunderstanding, variously present in much Marxist literature, seems above all due to that drastic and fast change of the theoretical situation at the end of the nineteenth century, which we have considered above (see Paragraph 13) and which had made the analytic meaning of the distinction incomprehensible.

VIII. Value and the Exploitation of Labour

27. Besides the analysis of fetishism, and the distinction between concrete and abstract labour, there is a third role which cannot be traced back to the determination of the rate of profit and prices and yet has frequently been attributed to Marx’s labour theory of value. This role would be to provide the necessary basis for the notion that the origin of profits lies in the exploitation of labour: the same role, it should be noted, which Böhm-Bawerk had attributed to Marx’s theory in his *Capital and Interest* (see Paragraph 13 above).

Unlike those concerning fetishism and abstract labour, this role of labour value, in connection with labour exploitation, does not seem to have its origin in Hilferding’s reply to Böhm-Bawerk’s *Karl Marx and the Close of his System*: Marx’s explicit denials of any such relation were still too close at hand. This supposed connection between labour value and exploitation appears in fact to be the same utopian socialist application of ‘Ricardo’s law of value’ which Marx described in these terms: ‘if the exchange value of a product equals the labour-time contained in the product, then the exchange value of a working day is equal to the product it yields’ (Marx 1970, p. 62). Marx criticised this thesis as a consequence ‘supposedly’ arising from the law of value²⁵ and, to make his position even more explicit, he went on to add that this ‘utopian interpretation of Ricardo’s formula’ was already completely forgotten in England, when M. Proudhon ‘discovered it on the other side of the Channel’ (ibid., footnote). It was clearly not Marx’s intention to resuscitate this ‘formula’ in the Germany of 1859 or 1867. As Engels (1884, p. 6) was to comment shortly after Marx’s death, Marx founded his communist demands ‘upon the inevitable collapse of the capitalist mode of production which is daily taking place before our eyes to an ever greater degree’, and not upon any ‘utopian’ interpretation of Ricardo’s theory of value.

²⁵[Editorial note. Garegnani’s writing is extremely synthetic here. The sentence by Marx may appear misquoted by Garegnani, because with it Marx describes an *objection* moved by ‘economists’ against Ricardo (on the basis of course of an inability to distinguish value of labour – or better, of labour power – from value added by labour to the product; see footnote 23 above). But after dismissing the objection, Marx adds in a footnote: ‘This objection, which was advanced against Ricardo by bourgeois economists, was later taken up by socialists. Assuming that the formula was theoretically sound, they alleged that practice stood in conflict with the theory and demanded that bourgeois society should draw the practical conclusions supposedly arising from its theoretical principles’ (Marx 1970, p. 62n). The footnote then continues in the way Garegnani reports.]

28. As an example of the way in which such a link between the theory of value and the notion of exploitation of labour is often established, we may consider some arguments advanced by the Italian author Claudio Napoleoni. In a publication of 1972, he wrote that one of the consequences that follow from the labour theory of value is ‘the proposition that the capitalist relation is a relation of exploitation’ (Napoleoni 1972, pp. 179–180; Garegnani’s translation). A few pages later, we find an attempt to argue this dependence of the notion of exploitation in a way which, at first sight, is not simply the ‘utopian’ application of the theory of value rejected by Marx and Engels. With reference to the ‘necessary labour’ measuring the wage, Napoleoni argues that if

in the value of the wage goods ... there were something else [besides labour], if, for example, in the wage goods ... there were six hours of labour and, in addition, *something else* ... relating to an active participation of the capitalist in the productive process ... it is clear that Marx could no longer use [his] reasoning since one would then say: in reality, the worker produces commodities which do not contain only six hours of labour, but also contain another *X* [and] it is by no means true that the worker, in his first six hours, reconstitutes the value of his own wage, since he reconstitutes only a part of this value. (Napoleoni 1972, p. 18; Garegnani’s translation)

What is not clear in Napoleoni’s passage is what it means to say that value ‘contains labour and in addition, something else.’ We are all familiar with the idea of *commodities* embodying or, if we like, ‘containing’ labour, but not with the idea of *value* which ‘contains’ labour and another *x* (relating ‘to an active participation etc.’). Might it not be that Napoleoni is simply referring to the price of production, which ‘contains’ wages (but not labour!) and therefore, necessarily, ‘contains’ profits as well, whatever might be the ‘active participation’ of the capitalist in the productive process?

This argument by Napoleoni about exploitation does not therefore really seem to take us beyond that utopian application of ‘Ricardo’s law of value’ which Marx himself had criticised. Like the ‘socialists’ of Marx’s passage, Napoleoni apparently believes that ‘if the exchange value of a product equals the labour time contained in the product’ – i.e. as Napoleoni would put it, if value ‘contains’ only labour – then ‘the exchange value of a working day is equal to the product it yields’, and any difference going to profits is due to exploitation.

29. To see what is, in our opinion, the true meaning of Marx’s notion of exploitation of labour and its independence from labour values, we should start by trying to define what is generally meant by the expression ‘exploitation of labour’. For this purpose, it seems useful to refer to a society, such as a feudal one, for which the existence of exploitation would today be almost universally admitted. Let us consider, then, a feudal serf. One’s opinion concerning the exploitation of his labour would not be affected, it seems, if, rather than spending half his labour-time on the fields of his lord, he gives the lord half the product of the field allotted to him (in the form of tithes and other tributes). One’s opinion concerning the serf’s exploitation does not, therefore, seem to depend on the form of surplus labour or surplus product which the lord’s revenue may at first take: in any case, there would be no difficulty in expressing a surplus product in terms of surplus labour, and vice versa. On what, then, is one’s view of the serf’s exploitation founded? The only general answer which seems possible is that the feudal lord gets his revenue *simply because* the (feudal) social order does not allow serfs to appropriate the entire product.

If, now, and keeping in mind this meaning of the expression ‘exploitation’, we leave the feudal society to consider a capitalist society instead, it should be apparent that the existence of exploitation under capitalism is a problem that is at the same time simpler and more complex than Napoleoni seemed to think. It is *simpler* because you certainly need no theory of value to ascertain that the worker does not receive the entire product. The fact that the structure of the theory should, in the first instance, make the surplus take the form of surplus product rather than that of surplus labour would in fact seem no more relevant here than it was for the analogous case regarding the serf. (In both cases, surplus product and surplus labour could anyway be easily translated into each other’s terms.)

The problem of exploitation is, however, also *more complex* than Napoleoni appears to believe, because the existence or non-existence of an explanation for such a surplus product (surplus value), other than the mere fact that the social order does not allow the workers to appropriate the entire social product, is a question the answer to which can only be inferred from the entire body of economic theory, i.e. from what systematic inquiry has brought to light concerning the complex of economic phenomena bearing upon the distribution of the product between the classes.

Such inquiry could indeed confirm that profits owe their origin merely to the social order. It could however also reveal a foundation for profits which is not evident to unsystematic observation: it could reveal, that is, that the explanation of surplus product (surplus value) in terms of exploitation is only – to use Marx’s own phrase – a ‘popular’ or ‘vulgar’ explanation, pertaining to ‘appearances’, with which common sense rests content, though they may contrast with the results of systematic observation. Indeed, there are strong reasons, which we need not enter into here, to believe that a foundation other than the mere fact of the existing social order could be shown to exist if modern marginalist theories were correct and the rate of profit were ultimately the price of a ‘scarce’ factor of production.

If all this is true, it becomes clear that the proposition of the existence of labour exploitation in a capitalist society does not in any sense depend on the validity of the labour theory of value, whatever the aura which the ‘utopian’ use of the theory may by now have built around it. The proposition depends, on the contrary, on the validity of the entire theoretical approach founded on the notion of social surplus – from which it emerges that profits have no systematic explanation other than the fact that the existing social order does not allow workers to appropriate the entire product. If, then, this approach holds and it is legitimate to describe the revenue of a feudal lord as the result of labour exploitation, it will seem to be no less legitimate to describe profits in the same terms.

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