STUDIES IN THE LABOUR THEORY OF VALUE

by

RONALD L. MEEK
Lecturer in Political Economy at the University of Glasgow

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PREFACE

THIS book really owes its origin to a long correspondence on certain matters of economic theory which the author had in 1951 with Mrs. Joan Robinson. In our discussion we found ourselves returning again and again to the question of the validity of the labour theory of value, and it soon became clear that the main hindrance to mutual understanding between us was the wide difference between our respective views on this question. The correspondence ended with each of us giving the other up as more or less hopeless, but I was left with the uncomfortable feeling that my failure to convince Mrs. Robinson that the labour theory was good sense and good science was my fault rather than hers. Surely it must be possible, I thought, to build some sort of bridge between Marxian economists and their non-Marxian colleagues so that the latter can at least be made to see what the former are trying to get at.

This book, then, was originally intended as an attempt to provide such a bridge. I felt that the adoption of a genetical approach to the labour theory might help: if one showed how it had evolved—not only over a historical period but also in the minds of individual economists like Smith, Ricardo and Marx—its general character and the nature of the job it tries to do might emerge rather more clearly. My aim was to try to persuade sincere but sceptical non-Marxian economists that the intellectual quality of the labour theory of value, and indeed of Marx's economic teaching as a whole, had been seriously underestimated by most of those on whose works they had been brought up.

As the book proceeded, however, another aim distinct from though related to this began to come into prominence. It was clearly necessary, if I was to fulfil my task properly, to show not only that the labour theory was good science in Marx's time but also that it is good science today. And this raises certain issues of great importance and difficulty. The point is that capitalism has not stood still since the time when Marx wrote: it has developed into what Marxists call its imperialist or monopoly capitalist stage, in which the economic processes which go on differ in certain important respects from those which went on in the old capitalism which Marx knew and analysed. In the new situation which has arisen, certain long-accepted Marxian economic laws no longer operate, or at least operate in new ways. Marxists argue, however, that monopoly capitalism, even though it differs in this way from the system which existed a century ago, is still capitalism, and that the basic categories of Marx's economic analysis are the key to the proper understanding of the new situation as well as of the old. But we can hardly hope to persuade others that we are right unless we ourselves actually do the job of reapplying these basic categories to the new situation, and deduce the laws of the processes of capitalism in its present stage just as convincingly as Marx did in the case of the stage in which he himself lived. And this is a job whose importance we have been slow to recognise—largely, no doubt, because we have tended to be over-optimistic about the probable duration of the monopoly capitalist period.

Within the limits of the field I had mapped out for myself it was fairly clear what had to be done in this connection. Marx had developed the labour theory of value in the context of a given set of problems and a given stage in the development of capitalism. The essence of what he said had to be disentangled from this context and reapplied to the present-day situation, taking account of everything that was new. It seemed to me that if this could be done in relation to the labour theory of value, which played such a vitally important part in Marx's analysis, the task of reapplying the remaining categories might be made a little easier. This would be so, I thought, even if—as in fact turned out to be the case—I personally was able to do little more than suggest a new conceptual framework within which research into the operation of the law of value in different historical systems, including monopoly capitalism, might profitably proceed.

The result of this is that the book as it now stands is addressed not only to my non-Marxian colleagues but also to those Marxists who are interested in the development and reapplication of the basic Marxian economic categories. My fear, of course, is that in trying to address two different audiences at once I shall succeed in appealing to neither. My hope, however, is that the book may play a small part in helping to usher in a period of coexistence between the two groups, in which accusations of dishonesty and academic incompetence will be replaced by genuine attempts to understand and evaluate one another's point of view, and in which Marxists and non-Marxists will enter into peaceful competition with one another to see who can provide the more accurate and useful analysis of economic reality.

This book has been some time in the making, and the obligations

I have incurred to those of my friends and colleagues who have discussed these problems with me are too many and various to specify in detail. I owe a special debt, however, to Professor A. L. Macfie, whose conversations over the past eight years on certain aspects of the history of economic thought have helped me to surmount many obstacles; and also to Mr. Emile Burns, Mr. Maurice Cornforth, Mr. M. H. Dobb and Mr. John Eaton, who read the book in manuscript and made valuable suggestions for its improvement. My obligation to Mr. Dobb extends far beyond this particular service: his constant interest and encouragement, and the inspiration afforded by his own work in this field, have more than anything else made the writing of this book possible. None of these, of course, must be held responsible for the arguments put forward in this book, or for any errors and misinterpretations which remain.

I am obliged to the editors of the *Economic Journal*, *Economica*, the *Review of Economic Studies* and the *Scottish Journal of Political Economy* for permission to reproduce certain passages from articles which have already appeared in these journals.

Finally, I should like to thank my students, both at Glasgow University and elsewhere. If to teach is to learn, to learn is also to teach.

R. L. M.

12th November, 1955

CHAPTER ONE

VALUE THEORY BEFORE ADAM SMITH

ACCORDING to the Classical economists,[1] the main task of value theory was to explain what determined that "power of purchasing other goods" which the possession of a particular commodity normally conveyed to its owner. "Normally" was defined with reference to the prevalence of competition. Under competitive conditions, it was said, and in the long period, commodities "normally" tended to sell at prices roughly equal to their costs of production, including profits at the customary rate, although temporary deviations from this "normal" or "natural" price might be brought about by fluctuations in supply and demand. This "normal" price, equal to costs of production, was regarded as the monetary expression of the *value* of a commodity.

The majority of Western economists today would probably not be prepared to accept this definition of value; but to most of them, particularly if they have been brought up in the Marshallian tradition, it is at least not likely to appear inherently unreasonable. Indeed, so reasonable does it still appear that one is apt to forget that each of the several positions of which it is compounded had to be conquered by the early Classical economists in the face of considerable opposition and confusion. It is the first of the purposes of the present chapter to describe and account for the gradual evolution of this way of looking at value, with particular reference to the century prior to the publication of Adam Smith's *Wealth of Nations.*

What does appear unreasonable to many Western economists is the considerable emphasis which Classical political economy placed on the role of labour in the determination of value, and its stubborn refusal to grant demand and utility the status of determinants. Yet the labour theory of value was not an exotic growth; its development went hand in hand with that of the concepts I have just been

[1] The term "Classical economists", which seems to have been first employed by Marx, is widely used by present-day historians of economic thought, but only rarely in Marx's original sense. In this book it is employed, as it was by Marx, to mean the school of political economy dating from Petty to Ricardo in Britain and from Boisguillebert to Sismondi in France which "investigated the real relations of production in bourgeois society". See Marx's *Critique of Political Economy* (Kerr edn.), p. 56, and *Capital*, Vol. I (Allen & Unwin edn.), p. 53, footnote.

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describing. It is the second of the purposes of this chapter to account for the evolution of the outlook which gave rise to the labour theory, and to explain its historical connection with these concepts.

1. *The Canonist Approach to the Value Problem*

Although this chapter will be mainly concerned with value theory in the seventeenth and eighteenth centuries, it is useful to start the story with Aquinas. The particular approach to the problem of value which is revealed in most of the early Canonist writings on the just price has rather more in common with the Classical theory than has the approach generally adopted by the Mercantilists. The reason is, of course, that the Canonists, like the Classical writers, generally attacked the problem of value from the point of view of man's activity as a producer of commodities, whereas the Mercantilists usually attacked it from the point of view of his activity as an exchanger of commodities.

The particular form of production in which Aquinas was predominantly interested was that which was carried on by small independent producers who sold their products on the market and purchased commodities for their own use with the proceeds. The chief problem which concerned the early Canonist writers was so to define the "value" of commodities produced and exchanged in this fashion that any divergence between this value and the actual price received and paid could be clearly disclosed as ethically unjust either to the seller or the buyer. Since the proceeds of the sale of a commodity normally accrued in the first instance to its direct producer, the idea that remuneration should be proportionate to outlay and effort in production (provided that the remuneration was weighted according to status, and provided also that the effort was properly directed) afforded a natural basis for the definition of the just price. The constituent elements of the mediaeval just price were mainly items of producers' cost—notably labour expended, but also risk undertaken, money laid out in the purchase of raw materials, costs of transport, etc.—which required to be adequately compensated for if justice was to be done. These elements in their totality made up the value or real worth of a commodity, which might differ from the subjective estimates of its worth made by either party to the exchange transaction. Generally speaking, the judge of the point of equivalence between cost and reward was conceived to be simply the common agreement or estimation of the community. This criterion, in Aquinas's time, was probably adequate to secure a rough measure of distributive justice, since in a small, static and relatively self-sufficient community the efforts made and expenses incurred by different producers could usually be directly compared.[1]

But another form of exchange was already becoming important in Aquinas's time. In Aquinas's famous discussions on "Fraud Committed in Buying and Selling", the first three of the four sections seem to deal mainly with the obligations of sellers who are also independent producers. But the fourth section deals with the case of those whose activities are directed towards "selling a thing for more than was paid for it", i.e., the traders and merchants.[2] The motives of the merchant are different from those of the small independent producer: he is the harbinger of a new type of economy, although he does not at first regard himself as a revolutionary.[3] It would hardly have been possible for the Canonists to condemn this highly useful form of social activity outright. Aquinas introduces his discussion of this awkward problem by recalling Aristotle's distinction between the "natural" kind of exchange by means of which "one thing is exchanged for another, or things for money to meet the needs of life", and that other kind of exchange by means of which things are exchanged for money "not to meet the needs of life, but to acquire gain". The second kind of exchange, trading, is regarded as being in itself "somewhat dishonourable". But there are at least two ways in which a man who sells a thing for more than he paid for it may escape moral condemnation. First, he may direct his gain to some necessary or honourable end—"as when a man uses moderate gains acquired in trade for the support of his household, or even to help the needy." Second, he may lawfully sell a thing for more than he paid for it if, after having originally bought it without any intention of selling it, he later wishes to sell it, provided that in the meantime "he has improved the thing in some way", or if "the price has changed with a change of place or time", or if risk has been involved in transporting

[1] Cf. W. Cunningham, *The Growth of English Industry and Commerce* (5th edn.), Vol. II, p. 461; R. H. Tawney, *Religion and the Rise of Capitalism* (Penguin edn.), p. 49; Rudolf Kaulla, *Theory of the Just Price*, chapter 1; and H. R. Sewall, *The Theory of Value before Adam Smith* (Publications of the American Economic Assn., 3rd Series, Vol. II, No. 3), *passim*. See also below, pp. 295–6.

[2] Cf. H. R. Sewall, *op. cit.*, p. 18.

[3] "Into this world there entered the merchant with whom its revolution was to start. But not as a conscious revolutionary; on the contrary, as flesh of its flesh, bone of its bone. The merchant of the Middle Ages was by no means an individualist; he was essentially a co-operator like all his contemporaries" (*Engels on "Capital"*, pp. 106–7).

the thing from one place to another.[1] In other words, the trader can escape moral condemnation if he behaves as far as possible like a small independent producer. Aquinas's discussion indicates that in his day the trader's activities were already being accepted—even if only reluctantly—as an inevitable feature of economic life. But it also suggests that the gains of the trader had not yet come to be conceived as a completely separate and distinctive category of income, since his receipts could apparently still be plausibly assimilated to those of the peasant and craftsman.

In the last analysis, it was the activities of the trader, hesitantly sanctioned in Aquinas's system, which eventually destroyed that system. The basic economic concepts of the *Summa Theologica* could not hope to survive the great development of internal and external commerce in the later Middle Ages. The just price of a commodity could not be rationally assessed according to Aquinas's principles if its seller came from afar and the cost of producing it was therefore unknown.[2] The story of the gradual decline of the economic theory of early Scholasticism is too familiar to require repetition, and one point alone seems to need emphasis here. The mediaeval concept of the just price gradually lost its power over men's minds as the impersonal and unconscious market took over the task of regulating prices. But the habit of thinking of "value" in terms of producers' cost remained firmly rooted in the consciousness of the direct producers themselves, and was later to prove itself one of the most influential of all the economic legacies left by the Schoolmen.

2. *The Mercantilist Theory of Value*

In the days of the decline of Scholasticism, those who were anxious to develop the just price doctrines so as to take account of the needs of expanding trade and commerce (and in particular the need for the gains of the merchants and traders to be recognised as just) found it necessary to retreat from the producers' cost approach to value towards what may be called the "conventional price" approach. Cases in which it was impossible to reconcile the gains of traders with Aquinas's original formulae must have become more and more common, and under these circumstances it became advisable to demonstrate that the price customarily paid and received—i.e., the conventional price—was just. This could be done, without too much

[1] Quotations from A. E. Monroe, *Early Economic Thought*, pp. 62-4.
[2] Cf. H. R. Sewall, *op. cit.*, p. 122.

damage to Aquinas's basic premises, by arguing that the "value" of a commodity was dependent to some extent upon its utility to the purchaser. If the purchasers of a particular commodity were willing to buy it at a price higher than its producers' cost, this price could then be taken to represent the commodity's worth or "real value" *to them.* A certain amount of attention therefore began to be paid to the subjective valuations of the individual consumer, and the concept of "normal need" upon which the older theory had largely relied began to go out of fashion.[1] Thus the transition to the value theory characteristic of the earlier years of Mercantilism was relatively easy. The later ecclesiastical writers themselves laid the foundations of the structure of ideas which the secular publicists of the Mercantilist era were eventually to erect.

It is difficult, however, to make any useful generalisations about the ideas on value which were compounded in the great crucible of the sixteenth and early seventeenth centuries, following on the swift increase in the "extent of the market" after 1492. Any such generalisations would have to be wide enough to cover not only a great number of writers (few of whom were directly concerned to elaborate a theory of value), but also a number of different countries at varying stages of social and economic development. It does seem possible, however, to distinguish three important notions regarding price and value which began to grow in popularity about this time. In the first place, the "value" (or, sometimes, "natural value") of a commodity came to be widely identified with its actual market price. Second, the level of this "value" was regarded as being determined by the forces of the market—i.e., by supply and demand. Third, the concept of "intrinsic value", or utility, as distinct from "value", or market price, began to emerge, and something like a causal connection between the two was often postulated. Consider the following sets of quotations from Nicholas Barbon's pamphlet, *A Discourse of Trade*:

1. "The Price of Wares is the present Value. . . . The Market is the best Judge of Value; for by the Concourse of Buyers and Sellers, the Quantity of Wares, and the Occasion for them are Best known: Things are just worth so much, as they can be sold for, according to the Old Rule, *Valet Quantum Vendi potest.*"

2. "The Price of Wares is the present Value, And ariseth by

[1] Kaulla (*op. cit.*, p. 64) remarks that "the austere views of the Scholastics must have caused them to regard leanings towards subjectivism as a sign of decadence".

Computing the occasions or use for them, with the Quantity to serve that Occasion. . . . It is impossible for the Merchant when he has Bought his Goods, To know what he shall Sell them for: The Value of them, depends upon the Difference betwixt the Occasion and the Quantity; tho' that be the Chiefest of the Merchants Care to observe, yet it Depends upon so many Circumstances, that it's impossible to know it. Therefore if the plenty of the Goods, has brought down the Price; the Merchant layeth them up, till the Quantity is consumed, and the Price riseth."

3. "The Value of all Wares arise from their Use; Things of no Use, have no Value, as the *English* Phrase is, *They are good for nothing*. The Use of Things, are to supply the Wants and Necessities of Man: There are Two General Wants that Mankind is born with; the Wants of the Body, and the Wants of the Mind; To supply these two Necessities, all things under the Sun become useful, and therefore have a Value. . . . The Value of all Wares, arriveth from their Use; and the Dearness and Cheapness of them, from their Plenty and Scarcity."

The three ideas which I have distinguished appear to be fairly clearly implied in these three statements.[1]

Barbon's *Discourse* was published in 1690, at a time when the Mercantilist approach to value was already beginning to give way to the Classical approach. The pamphlet is obviously transitional: Barbon looks forward towards Adam Smith almost as often as he looks backward towards the earlier Mercantilists. His comments on value, however, which a number of modern critics have praised because of their emphasis upon utility, must have appeared to many contemporaries to be conservative rather than revolutionary, since they are so obviously based on the traditional Mercantilist outlook. "The excellency of a Merchant", as Petty had put it, lay in "the judicious foresight and computation" of market prices;[2] and it was only natural (particularly in the century of the price revolution) that the merchant should think of the "value" of a commodity in terms of its market price rather than in terms of its producers' cost. It was natural, too, that emphasis should be laid on the influence of demand (and thus of utility) upon the "value" of the commodity. The merchant still had comparatively little control over the process of production and production costs, and accordingly tended to regard the level of his profits as being largely dependent upon the degree to

[1] The quotations from Barbon in this section are taken from the reprint of the *Discourse* edited by J. H. Hollander, pp. 13-16, 39 and 41.

[2] Petty, *Economic Writings* (Hull edn.), Vol. I, p. 90.

which the commodities in which he dealt were suited to the requirements of their purchaser.

It is important to note not only that the profits of the merchant were customarily *regarded* as being paid by the consumer, but also that in the earlier Mercantilist period they actually *were* so paid. The crucial point here is that the means of production, generally speaking, were still in the hands of the direct producers. Profit could be secured by the "exploitation" of the consumer, but only rarely as yet by the exploitation of the direct producer. As Engels put it,

> "Production was still predominantly in the hands of workers owning their own means of production, whose work therefore yielded no surplus value to any capital. If they had to surrender a part of the product to third parties without compensation, it was in the form of tribute to feudal lords. Merchant capital, therefore, could only make its profit, at least at the beginning, out of the foreign buyers of domestic products, or the domestic buyers of foreign products; only toward the end of this period . . . were foreign competition and the difficulty of marketing able to compel the handicraft producers of export commodities to sell the commodity under its value to the exporting merchant."[1]

In other words, industrial capital (as distinct from merchant capital) was not yet a really significant factor in economic life, and the only form of profit to attract any great degree of attention was the "profit upon alienation" secured in commerce. The example of Barbon shows how difficult it must have been, even as late as 1690 and even for those who interested themselves in the process of production as well as the process of exchange, to visualise "profit on capital" as an element in the income of the "artificers". Barbon, significantly enough, defined "trade" as not only the selling but also the making of goods, and occasionally used the word "profit" as a blanket term to cover the net gains of both artificer and merchant. But Barbon's artificers, as he himself makes quite clear, are assumed to "cast up Profit, and Loss" with reference solely to *time*. It is only the merchants who "cast up Profit, and Loss" with reference to *interest*.[2] Industrial capital, and the phenomenon of a rate of profit on industrial capital, are still sufficiently inconspicuous to be abstracted from. The

[1] *Engels on "Capital"*, pp. 110-11. Cf. M. H. Dobb, *Studies in the Development of Capitalism*, pp. 199-200.

[2] "Interest is the Rule that the Merchant Trades by; And Time, the Artificer, By which they cast up Profit, and Loss; for if the Price of their Wares, so alter either by Plenty, or by Change of the Use, that they do not pay the Merchant Interest, nor the Artificer for his Time, they both reckon they lose by their Trade."

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