

POLITICAL ECONOMY AND CAPITALISM

Some Essays in Economic
Tradition

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PREFACE

AN attempt to explore the whole territory of economics with so fragile a vehicle as eight slender essays might well be held sufficient evidence of a diffuseness doomed to be superficial. If these essays made any such pretension, there would, I think, be no answer to the charge. But while their apparent range is wide, they make no claim to do more than survey certain aspects of their field, and they advisedly ignore large areas which many may judge to be more deserving of study. The selection of themes has not, however, been a random one; nor has it been influenced merely by a desire to emphasize what others have ignored. It has been guided by the opinion that Political Economy and the controversies which beset it have meaning as answers to certain questions of an essentially practical kind—questions concerning the nature and behaviour of the economic system which we know as capitalism; and that this type of question is crucial both to any full understanding of the development of economic thought and to the relation between economic thought and practice. In the later career of a theory there is a common tendency for original questions of this kind to become submerged and forgotten, so that essential meaning is lost or obscured. It is the belief (that economic thought, if it is to have realistic worth, must be freed of many notions to-day encumbering its roots which) gives to these essays such unity as they can claim to have, and explains their preoccupation so largely with interpretation and

criticism. If this critical task is as urgent a preliminary to clarity and realism as the author has been led to believe it to be, the result may not be entirely negative.

The book is necessarily addressed, in the main, to those who have some acquaintance with economic literature and with economic discussion. At the same time, care has been taken to avoid the technical preoccupations of professional economists, so far as the theme has allowed, and to make the discussion accessible to the wider circle of those who have a lively sense of the intimate relation between economic thought and practice in the world to-day and have little time for what is merely "light-bearing" without being "fruit-bearing". If some of what is written here may bear the character of thinking aloud rather than of finished thought, the thought has at least not been hasty but has extended over a considerable number of years. In this process of groping I have incurred a particular debt to Mr. Dennis Robertson and Mr. Piero Sraffa, who have read some, and to Mr. W. E. Armstrong, Professor Erich Roll and Mr. H. D. Dickinson, who have read all or the greater part of these essays at various stages in their growth, and whose criticism has banished a number of confusions which might otherwise have remained. Mr. Clemens Dutt, Mr. Alistair Watson and Mr. George Barnard have also given me valuable advice and correction on a number of special points. But none of these must be blamed for errors which remain, or for any of the opinions which are expressed.

M. H. D.

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CHAPTER I

THE REQUIREMENTS OF A THEORY OF VALUE

THERE are those whose attitude to classical Political Economy is contained in the statement that nothing is to be gained by examination of the elementary blunders of economists a century ago. In so extreme a form as this the attitude is probably rare. But there is a similar, if less impatient, opinion in general currency in academic circles which represents the classical economists as the crude, if brilliant, "primitives" of their art, from which our contemporary sophistication has no more than very minor lessons to learn. While classical Political Economy, it is said, may have posed many questions rightly and yielded certain brilliant guesses at the truth, its technique of analysis was inadequate to furnish logically satisfactory answers, and precision of thought as well as the solution of major problems were hindered by certain elementary confusions. Ricardo's genius was limited by his adherence to the crude and narrow labour theory of value, and by his "ignorance of the terse language of the differential calculus". Of Marx have we not been told that, taking as intellectual baggage a few hasty misreadings of Ricardo, he was led by commendable but unbalanced "sympathies with suffering" to positions which maturer reason must inevitably reject? The modern theory of value, product in the main of the final decades of the nineteenth century, divides the

economics of to-day from that of a century ago much as Newton's principles divided the work of his successors from pre-Newtonian physics. Ricardo and Smith might be the Pythagoras and Aristotle of economic science; but they were little more than this. So much has this belief become part of the texture of economic thought that to dispute it is to render oneself suspect, either as an ignoramus or as a victim of perverse obsessions which should have no place in scientific judgment.

To-day there is a tendency to maintain that the early economists were not merely immature but were misled into false inquiries. Even the concept of utility, which originally was championed as providing a more adequate answer to the questions which the classics had propounded and as covering a greater generality of cases, is frequently discarded as untenable or otiose. It is a growing fashion to say, with Cassel, that a theory of value is unnecessary and that all the requisite propositions can be enunciated simply in terms of an empirical theory of price. We are told that a theory which represents exchange-relationships as functions of certain human preferences, expressed in human behaviour, is all that a true science of economics should have or needs to have, and that such a theory *ipso facto* constitutes the only theory of value which can exist when value is properly defined. To the study of economics, says Mises, the study of purposes or ends is as irrelevant as is a study of real costs; and the only theory of value necessary to economic study is an equational system which generalizes the relationships which must prevail between scarce means and given ends in all possible situations.¹ Professor Myrdal has recently

¹ *Die Gemeinwirtschaft*, Eng. trans. as *Socialism*, p. 111 *et seq.*

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declared that the search of previous economists for a theory of value, based on concepts either of real cost or of utility, represented an obsession with ethical and political questions; and that only the abandonment of this false search has led to the placing of modern economics on a scientific basis.¹ An American writer, addressing himself particularly to Socialists, has said that Marx failed to understand the requirements of a theory of value, and that the modern doctrine, because of its superior objectivity and greater generality, is more properly the economic theory of a socialist economy than the value-theory of Ricardo and Marx.²

Clearly, any decision on such a matter, even any understanding of what is involved, requires an answer to the question: What conditions must an adequate theory of value fulfil? Prior even to this question, it may be necessary to answer a further question: What relevance at all has a theory of value to the structure of propositions which constitutes Political Economy?

Croce has said that "a system of economics from which value is omitted is like logic without the *concept*, ethics without *duty*, aesthetics without *expression*".³ But this analogy is unconvincing unless the purpose of economic inquiry is more precisely defined. Clearly there are a number of propositions about economic events which it seems possible to make without any prior postulation of a principle of value, still less of "adequate conditions" for a theory of value. Moreover, it seems quite possible to make a number of state-

¹ G. Myrdal, *Das politische Element in der Nationalökonomischen Doktrinbildung* (1932), Chapters 3 and 4.

² P. M. Sweezy in *Economic Forum*, Spring 1935.

³ Benedetto Croce, *Historical Materialism and the Economics of Karl Marx*, p. 138.

ments about the behaviour of prices without any attention to *a priori* considerations concerning formal adequacy. Will not the sum of such statements, if consistent and true, itself constitute our theory of value? If a theory of value is conceived of as anything more than this, does it not define itself as something metaphysical, and something irrelevant to the positive inquiries which economists have in hand? Why not argue, not about formal adequacy, but simply about the sort of empirical statements to be made which are true to fact?

What is meant when one speaks of the formal adequacy of a theory in this context is the conditions which it must fulfil if it is to be capable of sustaining corollaries of a certain type of generality. One is referring to the relationship between propositions and the forecasts which can be built upon them. It is a question of the *level* of knowledge which one's set of statements constitutes—of how far one's knowledge is able to *reach*. It is a familiar fact that in the history of any branch of scientific knowledge inquiry has started with description and classification of events within a somewhat vague and undemarcated field. On the basis of such classification analysis is able at a later stage to construct certain limited generalizations. But such generalizations may for long remain applicable only to a limited type of situation or to a limited part of the field, and be incapable of sustaining forecasts of that more general type which relate simultaneously to the major events within the system and enable one to determine the configuration of the system as a whole. To achieve the latter requires that generalizations reach a certain degree, not only of comprehensiveness, but of refinement. A certain level of abstraction is required. Such a mile-

stone in the path of knowledge seems to have been provided, for instance, in chemistry by the concept of atomic weight of chemical elements, and in physics by the Newtonian law of gravitation. In Political Economy it seems true to say that prior to the publication of *The Wealth of Nations* the study of economic questions had not passed beyond its descriptive and classificatory stage: the stage of primitive generalization and of particular inquiries. Only with the work of Adam Smith, and its more rigorous systematization by Ricardo, did Political Economy create that unifying quantitative principle which enabled it to make postulates in terms of the general equilibrium of the economic system—to make deterministic statements about the general relationships which held between the major elements of the system. In Political Economy this unifying principle, or system of general statements cast in quantitative form, consisted of a theory of value.

The question of the adequacy of a theory of value, therefore, means the conditions which such a set of statements must fulfil if it is to be competent to determine the equilibrium or movement of the system as a whole. The purely formal answer to this question is familiar enough. The set of statements must have the form (or be capable of expression in the form) of an equational system in which the number of equations, or known conditions, is equal to the number of unknown variables in the system to be determined—no less and no more. This, however, is purely the formal requirement. To sustain forecasts concerning the real world the theory must have not only form but also content. It must have not only elegance but also “earthiness”; and what is more concretely required when these conditions

are expressed in realistic terms is less familiar, and is, indeed, more frequently than not ignored.

An equational system means that certain relationships are defined which govern, or connect, all the variables within the system. These are the generalizations of which the theory is composed. A formal condition for this equational system to be capable of solution—for the “unknowns” to be “determined”, or to have particular values assigned to them, when sufficient *data* about the situation are known—implies that somewhere in the system certain quantities which have the character of “constants” appear. The system as a whole is, of course, determined both by the relationships which the equations define and by these “constants”. But in an important sense it is the “constants” which are the key which furnishes numerical values to the whole. They are the data which, when known in any particular case, enable one to calculate (by means of the equations) the position of all the rest. The significance of a “constant” is not that it is necessarily unchanging and unchangeable,¹ but that it is some quantity which in any particular case can be known *independently* of any of the other variables in the system. It must be something which can be postulated independently of the rest. It is some quantity brought in, as it were, from outside the system of events to which the set of equations refers; and in an important sense it is on this outside factor that the total situation is made to depend. When it is known, the “shape” and “posi-

¹ Prof. Ragnar Frisch has pointed out that when economic theory is expressed in a dynamic, and not in a static, form, dealing with movement as well as equilibrium, certain of these “influencing coefficients” will have the character of “given functions of time”. (*Review of Economic Studies*, Vol. III, No. 2, p. 100.)

tion" of the situation can be fully calculated, for the reason that the unknowns are all ultimately expressed in terms of their relation to it, whereas it is not in turn expressed as a function of any of them. The quantity represented as a constant is, hence, determining, but not determined, so far as this particular context of events is concerned. For instance, the "gravitational constant" which figures in Newtonian physics expresses the acceleration of a body as (in part) a function of mass; and is valid in so far as one can treat mass as something independent of velocity. If, however (as more recent concepts are suggesting), the mass of a body in turn varies with its velocity, this constant is to that extent inadequate as a basis for calculating changes in velocity.

To take a slice of the real world and to analyse it in this way is equivalent to declaring this slice to be an "isolated system", in the sense that it is connected with the rest of world-happenings only through certain definable links, so that if we know what is happening at these links at any moment, we can calculate what will happen to the rest of this "isolated system". As Professor Whitehead has said, it means "that there are truths respecting this system which require reference only to the remainder of things by way of a uniform systematic scheme of relationships. Thus the conception of an isolated system is not the conception of substantial independence from the remainder of things, but of freedom from casual contingent dependence upon detailed items within the rest of the universe."¹

In the abstract, of course, it is possible to create any number of "isolated systems". One can construct equational systems about events, and make them coherent

¹ *Science and the Modern World*, pp. 58-9.

and solvable, merely by observing the formal rules and inventing the necessary constants which are required to determine the whole—by assuming certain things to be independent, whether they are in fact so or not. In this way quite a number of theories of value can be devised, with no means of choice between them except their formal elegance. This is an easy, much too easy, game. On the other hand, it is true that in the real world there are no completely “isolated systems”. A law of value, therefore, while it must be subjected to realistic, and not merely formal, criticism, can be expected to be no more than an *approximation* to reality, capable of sustaining a certain type, but not every type, of forecast, and achieving the highest degree of generality that is consistent with the complexity of the phenomena which one seeks to handle. The ultimate criterion must be the requirements of practice: the type of practical question which one requires to answer, the purpose of the inquiry in hand.

The smaller the degree of generality that one's questions require, the easier it often is to find a principle which will fit the case. The more particular, and less general, the problem to hand, the greater the number of surrounding conditions which one is justified in assuming to be constant. The problem of determining the result then becomes relatively simple provided one can know enough of the surrounding conditions (indeed, at the extreme of particularity one generally in practice knows too few of the relevant conditions to forecast the result, so that what one may gain in apparent simplicity one more than loses in insufficient knowledge). For instance, if one wishes to determine the price at which fish will sell in a particular market on one particular day, the

result is given if only one knows the supply of fish on the spot, the ephemeral desires of housewives and the amount of cash which the latter at the moment have to spend. All of these things can be reasonably treated as independent both of one another and of the price at which the fish is sold. Again (to take a more long-period example) if one is dealing with a particular commodity in isolation from the rest, one is entitled to take the level of wages, of profit and of rent as independent factors, as part of the given *data* of the problem; and a simple "cost of production" explanation suffices (given conditions of "constant returns") to determine the result. When, however, one is dealing with the generality of commodities, or even with large groups of commodities, or with a long instead of a short period of time, these simple assumptions break down: what in the isolated particular case one treated as independent factors cannot now be so treated. In this case one is no longer justified in using the level of wages, of profit and rent as determining constants, for the reason that these will be influenced by the values of commodities as well as influencing them. It follows, therefore, that an essential condition of a theory of value is that it must solve the problem of distribution (*i.e.* determine the price of labour-power, of capital and of land) as well as the problem of commodity-values; and it must do so not only because the former is an essential, indeed major, part of the practical inquiry with which Political Economy is concerned, but because the one cannot be determined without the other. In other words, neither Distribution nor Commodity-Exchange can be properly treated as "isolated systems". To express it more generally, a principle of value is not adequate which merely expresses

value in terms of some one or other particular value: *the determining constants must express a relationship with some quantity which is not itself a value.* This was the reason for which Ricardo rejected mere "supply and demand" explanations, and Marx scorned the "cost of production" theory of J. S. Mill: because such theories sought an explanation of value in terms of quantities which could only be treated as independent in circumstances which precluded the principle from having the requisite generality; in Mill's case in terms of a given level of wages and rate of profit for which he adduced no independent principle of determination.¹ This was the reason too why Ricardo was so concerned to demonstrate the unsuitability of Malthus' attempt to represent the value of commodities in terms of the value of labour-power,² and why Marx so brusquely set aside the relativism of Bailey.³

There is a further requirement which deserves explicit mention if only for the reason that it so frequently passes unobserved. It seems clear, from the nature of its subject-matter and the type of statement which it is required to make, that an economic theory must be

¹ Cf. below, pp. 16 and 140.

² Cf. below, p. 89 f.

³ A writer recently commenting favourably on Bailey has referred to "irrational disquisitions which depend upon a qualitative or monist conception of the nature of exchange-value" and regrets that value-theory "has not been more influenced by the proposition that the objective exchange-values of a commodity are to be found in the other commodities for which it can be exchanged (and not in some different inherent quality)". (Karl Bode, in *Economica*, Aug. 1935.) This comment would seem to miss the essential issue in the criticism of Bailey. It may be perfectly proper to *define* exchange-value as "the other commodities for which (a given thing) can be exchanged"; and it was so defined by Ricardo and Marx. But it does not follow that a determinate theory of value can be cast purely in such terms.

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quantitative in form. If this is so, it is necessary that the determining relation or relations which figure in the equational system should be capable of expression in terms of quantitative entities in the real world. They must be translatable into actual dimensions which can be factually apprehended and known. This is elementary; but it is not always observed by those who construct principles on purely formal lines. This does not necessarily mean that a theory of value needs to relate the exchange-value of commodities to some single dimension or real entity; although in practice it may work out that this has to be done. But to permit any full quantitative statements to be made, such governing dimensions or entities to which the price-variables are connected must themselves be related in a way that enables them to be reduced to a common term. For instance, if one's equations were to express the price of a commodity as some particular function of two quantities, u and v , one would need to know how u and v were themselves related for one's statements to have any precise meaning. (If we were to know that commodity a , for example, was equal to $5u$ and $1v$, while commodity b was equal to $1u$ and $5v$, it would be impossible, in the absence of further knowledge of the relationship between u and v , to state whether a was greater than b or b was greater than a .) This is simply to say that u and v must be actually capable of numerical expression. For this reason it would not be sufficient for a cost-theory of value to express value as a function, say, both of labour and abstinence, or of quantity of man-power and quantity of nature used in production, unless the theory was able to embrace some further condition or *datum* which afforded a common

term to the two elements of cost. And for this purpose it would not be legitimate to assimilate labour and abstinence or man-power and nature in terms of their market *values*, since this would be to make the determining constants, or the knowns of the problem, dependent on the unknowns which were to be determined. Similarly, a principle which made value a function of "desire" and "obstacles" would need to include some such condition as the postulate that in equilibrium the differential coefficients of "desire" and "obstacles" (subjectively estimated) were equal. This is evidently the meaning of Marx's emphasis, in the much misconstrued opening chapter of *Das Kapital*, on the necessity of finding some uniform quantity, not itself a value, in terms of which the exchange-value of commodities could be expressed; as it is clearly also the explanation of Marx's statement in a letter to Engels that, in his opinion, the major contribution of his first volume was the separation of labour-power and labour¹—the former a commodity represented in its value and the latter an objective representation of human activity and an entity capable of independent quantitative expression. This seems to provide the reason why the two major value-theories which have contested the economic field have sought to rest their structure on a quantity which lay outside the system of price-variables, and independent of them: in the one case an objective element in productive activity, in the other case a subjective factor underlying consumption and demand.

This crucial "value-constant" classical Political Economy found in a relationship of *cost*. The exchange-value of a commodity was defined in the purely relative

¹ *Marx-Engels Correspondence*, pp. 226 and 232.

sense of the amount of other commodities for which it was customarily exchanged. But a determinate solution for this system of exchange-ratios was sought in the principle that these ratios were governed ultimately by the quantity of labour required (in a given state of society and of technique) to produce the commodities in question. It was this solution which constituted the famous labour-theory of value. Prior to Ricardo this principle was not enunciated in any complete or clear-cut form. Frequently, indeed, it was formulated obscurely, and even ambiguously; Adam Smith having referred both to the *amount* of labour and also to the *value* of labour used in production.¹ As used by Ricardo and Marx the conception of labour was an objective one; labour being conceived as the expenditure of a given quantum of human energy; even though it was later to be translated into subjective terms as a mental "sacrifice" or psychic "pain" involved in work. Viewed objectively in this way, the determining relation was a technical one, and not a value-relation. In any given technical situation it would be a given factor, synonymous with the degree of labour-productivity, and independent of the *value* of labour-power (*i.e.* the wage-level). Moreover, it was a

¹ For instance: value "is equal to the quantity of labour which it enables him to *purchase or command*"; and "the real price of everything, what everything costs to the man who wants to acquire it, is the *toil and trouble of acquiring it*". (*Wealth of Nations* (Ed. 1826), pp. 34-5.) Ricardo commenting on this says that Adam Smith sometimes speaks "not (of) the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent expressions, and as if because a man's labour had become doubly efficient he would necessarily receive twice the former quantity in exchange for it". (*Principles*, p. 6.) In *Letters to Malthus* (Ed. Bonar, p. 233) we find Ricardo writing: "You say a commodity is dear because it will command a great quantity of labour; I say it is only dear when a great quantity has been bestowed on its production."