

Eduard Bernstein

*The Preconditions of Socialism**

Chapter 3

The economic development of modern society

(a) Remarks on the meaning of Marx's theory of value



And from this, incidentally, follows the moral that at times there is a drawback to the popular demand of the workers for 'the full proceeds of labour'.

Engels, *Anti-Dühring*¹

As we have seen, surplus value is, according to Marx's theory, the pivot of a capitalist society's economy. But to understand surplus value we must first know what value is. Marx's account of the nature and course of development of capitalist society therefore begins with the analysis of value.

According to Marx, the value of commodities in modern society consists in the socially necessary labour expended upon them, measured by time. However, this measure of value necessitates a number of abstractions and reductions. To begin with, pure exchange value must be developed, that is, abstracted from the particular use value of individual commodities. Then, in forming the concept of general or abstract human labour, we must set aside the peculiarities of particular kinds of labour (reducing higher or complex labour to simple or abstract labour). Then, in order to get the socially necessary labour time as the measure of the value of labour, we must set aside differences in the diligence, ability, and equipment of individual workers; and further, when we come to convert value into market value or price, we must set aside the socially necessary labour time required for the particular commodities taken separately. But even the labour value thus derived requires yet another abstraction. In a developed capitalist society, commodities, as has already been mentioned, are sold not at their individual values but at the cost of production, that is, the actual cost price, plus an average proportional rate of profit, the level of which is determined by the ratio of the total value of social production to the total wage of the human labour power expended in production, exchange, etc., ground rent having been deducted from the total value of social production and account having been taken of the distribution of capital into industrial, commercial, and bank capital.

So far as individual commodities or categories of commodities are concerned, value *is* thus bereft of all concrete content and becomes a purely mental construct. But what becomes of 'surplus value' under these circumstances? According to Marx's theory, it consists in the difference between the labour value of products and the payment for the labour *power* expended in their production by the workers. It is therefore clear that, as soon as labour value can claim validity only as an intellectual formula or scientific hypothesis, surplus value becomes all the more a mere formula, a formula which rests on a hypothesis.

* *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie*, Stuttgart 1899

¹ MECW, vol. XXV, p. 187; MECW, vol. XX, p. 187.

As is well known, Friedrich Engels, in an essay posthumously published in *Die Neue Zeit* (1895-6), pointed out a solution to the problem through a historical consideration of the process². According to this essay, the law of value did actually have direct validity, did actually directly govern the exchange of commodities in the period of commodity exchange preceding the capitalist economy. As long as the means of production belong to the producers themselves, be it a matter of natural communities exchanging their surplus product or of self-employed farmers and craftsmen bringing their products to market, it is the labour value of these products about which their price oscillates. But as capital - initially as commercial capital and merchant's capital, then as manufacturing capital, and finally as big industrial capital - inserts itself between the actual producer and the consumer, labour value increasingly vanishes from the surface, and the price of production comes to the fore. The above mentioned abstractions are intellectual reiterations of processes which have taken place in history and which even today produce after-effects and in fact recur in certain cases and in certain forms. Labour value remains a reality, even if it no longer directly governs the movement of prices.

Engels seeks to demonstrate this in detail from economic history, with reference to a passage in the third volume of *Capital*.³ But however brilliantly he exposes the rise and development of the rate of profit, the article lacks compelling demonstrative force precisely where it deals with the question of value. According to Engels's account, Marx's law of value is supposed to have prevailed generally as an economic law for between five and seven thousand years, from when the exchange of products as commodities began (in Babylonia, Egypt, etc.) until the advent of capitalist production. In the self-same volume of *Die Neue Zeit*, Parvus raised some telling objections to this view by pointing to a number of facts (feudal relationships, undifferentiated agriculture, guild and other monopolies) which hindered the formation of a general exchange value based on the labour time of the producers.⁴ It is quite clear that exchange based on labour value cannot be a general rule as long as production for exchange, the utilisation of excess labour, etc., is only a secondary feature of the economic unit, and as long as the circumstances in which the producers take part in the exchange are fundamentally different. The problem of labour constituting exchange value, and thus the problem of value and surplus value, is no clearer at that economic stage than it is today.

But what was more clearly evident at that stage than it is today is the fact of *surplus labour*. When surplus labour was performed in antiquity and in the Middle Ages, there was no deception about it; it was not obscured by any representation of value. When the slave had to produce for exchange, he was a simple surplus labour machine; the serf and the bondsman performed surplus labour in the open form of compulsory service and taxes in kind, for example, tithes. The journeyman attached to a guildmaster could easily see what his work cost his master, and how much he charged his customer for it*.

* Even nowadays surplus labour appears undisguised wherever pre-capitalist methods of industry have survived into modern times. The employee of a small builder who performs a piece of work for a customer knows quite well that his hour's wage is so much less than the price which the master puts in his account for the hour's work done. The same is true for the tailor or gardener, etc., who carries out orders for individual customers.

This transparency of the relationship between the wage of labour and the price of commodities persists even on the threshold of the capitalist era. Many passages that surprise us in the political-economic literature of that time, passages about surplus labour and labour as the sole begetter of wealth, are thus explained. What now appears to us to be the product of

² 'Wertgesetz und Profitrate', *NZ*, 14, 1 (1895-6), 6-11 and 37-44.

³ *Capital* III, pp. 1,037ff

⁴ Parvus, 'Der Terminhandel und die Getreidepreise', *NZ*, 14, 1 (1895-6), 718-22.

profound observation was at the time almost a commonplace. It never occurred to the rich of that epoch to represent their wealth as the fruit of their own labour. At the beginning of the manufacturing period, the increasingly widespread theory of labour as the measure of (exchange) value certainly starts from the conception of labour as the sole begetter of wealth and still thinks of value in very concrete terms; but it does more to confuse than to clarify conceptions of surplus labour. How, on the basis of these conceptions, Adam Smith later represented profit and ground rent as deductions from labour value, how Ricardo further elaborated this idea, and how socialists turned it against the bourgeois economy, we can gather from Marx himself.

However, already in Adam Smith, labour value is conceived as an abstraction from given realities. It is real in the full sense of the term only in 'that early and rude state of society' which precedes the accumulation of capital and the appropriation of land, and also in backward industries. In the capitalist world, by contrast, profit and rent are, for Smith, constituent elements of value in addition to labour, that is wages; and labour value serves him only as a 'concept' to disclose the distribution of the products of labour, that is, the fact of *surplus labour*.⁵

It is, in principle, no different in Marx's system. Marx certainly clings more firmly than Smith to the concept of labour value, which he conceives in a stricter but also more abstract fashion. However, while Marxists, including the present author, believed that a point of fundamental importance for the system was the passionately discussed question as to whether the attribute of 'socially necessary labour time' related only to the *manner* in which the commodities in question were produced or also to the relation between the *quantity* of these goods produced and effective demand, a solution already lay completed in Marx's desk. It gave a quite different complexion to this and other questions, and moved it into a different area and onto a different plane. The value of individual commodities or kinds of commodity now becomes quite secondary, since commodities are sold at their production price - cost of production plus rate of profit. What takes first place is the *value of the total production of society* and the surplus of *this* value over the sum total of the wages of the working class, that is, not the individual but the *entire social surplus value*. What the totality of workers at a given moment produces over and above the portion which they themselves receive constitutes the social surplus value, the surplus value of social production, which individual capitalists share in approximately equal proportion according to the capital they have invested. However, this surplus product is realised only insofar as total production corresponds to total demand, that is, the ability of the market to absorb it. From this point of view, that is, taking *production as a whole*, the value of every single kind of commodity is determined by the labour time which was necessary to produce it under normal conditions of production and in that quantity which the market, that is, the whole community regarded as consumers, can absorb at that time. Now, in reality there is no measure for the total demand at any given time for precisely the commodities under consideration; and so value conceived as above is a purely abstract entity, no less than the marginal utility value of the school of Gossen, Jevons, and Böhm-Bawerk.⁶

Both are based on real relations, but both are built up on abstractions.*

⁵ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, book I, chapter vi. [Bernstein seems to have misunderstood Smith's argument. Smith was arguing that profit and rent are component parts of prices, not values].

⁶ H. H. Gossen and W. S. Jevons were (together with C. Menger and L. Walras) responsible for developing the marginal utility theory of value. E. von Böhm-Bawerk extended the theory, but he also used it to combat the growing influence of Marxism.

* We find an interesting attempt to give labour value a more concrete content, or to transform it into a theoretically measurable quantity, in Leo von Buch's book, *Intensity of Labour, Value, and the Price of Commodities* (Leipzig, Duncker & Humblot, 1896). The author, who was clearly not aware of the third volume of *Capital* when he composed his work, constructs as the measure of the amount of labour value the *marginal intensity* of labour, a product of the relationship of the daily hours worked to the eight-hour day and the relationship of the actual wage to the value of the product of labour (the rate of exploitation). The shorter the working day and the lower the rate of exploitation, the higher the intensity of labour and hence the labour value of the product. Accordingly, Buch tells us, no exploitation takes place on the basis of labour value. This comes only from the relationship of labour value to the market value of the product, which is the basis of the price, which Buch calls the *assessment value*, rejecting the term exchange value because it is meaningless nowadays where nothing is exchanged.

However strange the *theory* seems at first glance, it has *one* point in its favour; because Buch makes a fundamental distinction between labour value and market value, he avoids any conceptual dualism and is able to develop the former in a purer and more rigorous fashion. The only question is whether it was not an anticipation to bring the latter 'value' into the determination of labour value. What Buch wanted to do, namely, to give labour value as opposed to market value a *physiological basis* could also be accomplished if he directly included the wage actually paid as a factor in the assessment. However Marx draws attention to this, which the relation of labour value to the wage fundamentally disallows, in the passage in the chapter 'The Labour Process and the Valorization Process' where he says: 'This power (labour power) being of higher value, it expresses itself in labour of a higher sort, and therefore becomes objectified, during an equal amount of time, in proportionally higher values' (vol. 1, 2nd edn, p. 186)⁷. Buch's treatise, of which only the first part has appeared and which I will keep in reserve for a more thorough treatment on a suitable occasion, strikes me as being the product of no mean analytical mind and a noteworthy contribution to a problem that has by no means been completely solved.

Such abstractions are, naturally, unavoidable in the treatment of complex phenomena. How far they are admissible depends entirely on the substance and the purpose of the investigation. To begin with, it is just as permissible for Marx to disregard the characteristics of commodities to the point where they are ultimately nothing but embodiments of a quantity of simple human labour as it is for the school of Jevons and Böhm-Bawerk to abstract from commodities all their characteristics except utility. But either abstraction is admissible only for specific purposes of demonstration, and the propositions based upon them are valid only within defined limits.

However, although there is no reliable yardstick for the total demand for any particular kind of commodity at any one time, practical experience shows that within certain periods of time the demand and supply of all commodities approximately equalise themselves. Practical experience further shows that only a part of the community takes an active part in the production and distribution⁸ of commodities, while another part consists of people who enjoy either an unearned income or an income from services not directly connected with production. So, a significantly larger number of people is supported by the labour of those employed in production than is actively engaged in it. Moreover, income statistics show that the strata not engaged in production appropriate a much greater share of the total product than their numerical relationship to the productively active part might suggest. The surplus labour of the latter is an empirical fact demonstrable from *experience* and requiring no deductive proof. *Whether or not Marx's theory of value is correct has no bearing whatsoever on the demonstration of surplus labour. It is in this respect not a demonstrative argument but merely a means of analysis and illustration.*

So if, in the analysis of commodity production, Marx suggests that individual commodities are sold at their value, he is using a particular case to illustrate the process which, in his own view of the matter, is actually exhibited only by production taken as a whole. The labour time spent on the totality of commodities is, in the sense previously indicated, their social value*

⁷ *Capital* I, p. 305.

⁸ This is preferable to the misleading term 'distribution'.

* 'This is in fact the law of value ... that not only is no more labour-time devoted to each individual commodity than is necessary, but out of the total social labour-time only the proportionate quantity needed is devoted to the various types of commodity. *Use-value still remains a condition* ... The social need, that is, *the use-value on the social scale*, here appears decisive for the quota of total social labour-time that falls to the share of the various particular spheres of production' (*Capital* III, 2, pp. 176-7).' This sentence alone makes it impossible to dismiss the theory of Gossen and Böhm with a few condescending phrases.

And if even this social value is not fully realised - because depredation of commodities is constantly occurring due to partial overproduction - it has in principle no bearing on the fact of social surplus value or surplus product. Its quantitative growth will, from time to time, be modified or slowed down, but there is no question of its standing still, much less of a quantitative decrease in any modern state. The surplus product is increasing everywhere; but the ratio of its increase to the increase of wages-capital is, at present, declining in the most advanced countries.

The fact that Marx applies this formula for the value of the totality of commodities to single commodities in itself indicates that, for him, the development of surplus value occurs exclusively in the sphere of production, where it is the industrial wage-labourer who produces it. All other active elements in modern economic life are subsidiary to production and *indirectly* help to raise the surplus value when, as for example merchants, bankers, etc. or their staff, they relieve industrial enterprise of work it would otherwise have to do and thus reduce its costs. Wholesale dealers etc. with their employees are merely the transformed and differentiated clerks etc. of the industrialists, and their profits are the transformed and concentrated costs of the latter. The wage-earning employees of these merchants certainly create surplus value for *them*, but no social surplus value. For the profit of their employers together with their own wages is a *deduction* from the surplus value produced by industry. However, this deduction is smaller in proportion than it was before the differentiation of functions under consideration, or than it would be without it. This differentiation only renders possible the development of production on a large scale and the acceleration of the turnover of industrial capital. Like the division of labour generally, it increases the productivity of industrial capital, or rather, that of the labour directly employed in industry.

This brief recapitulation of the exposition of mercantile capital (from which, again, banking capital is to be differentiated) and of mercantile profit as set forth in the third volume of *Capital* will suffice. It makes clear the narrow limits within which the labour that creates surplus value is conceived in Marx's system. The mercantile functions mentioned, as well as others not discussed here, are by their nature indispensable to the social life of modern times. Their forms can, and undoubtedly will, be changed; but they themselves will remain, as long as mankind does not dissolve into small self-contained communities, in which they might then be either abolished or reduced to a minimum. However, in the theory of value relevant to contemporary society, the entire outlay for these functions appears as a deduction from surplus value, partly as 'costs' and partly as an integral component of the rate of exploitation.

There is a certain arbitrariness in the evaluation of functions in which we assume, not an actual community, but an artificially constructed and collectively managed community. This is the key to all obscurities in the theory of value. It is to be understood only with the help of this model. We have seen that surplus value can be conceived as a reality only if the economy as a whole is assumed. Marx did not get around to finishing the chapter on classes, which is so important to his theory. In it, it would have been shown with the utmost clarity that labour value is absolutely nothing other than a key, a mental construct like the atom endowed with a soul.*

* We know that we think and we also know pretty well in what way we think. But we will never know how it comes about that we think, how consciousness is formed from external impressions, from the stimulation of the nerves or from changes in the condition and interaction of the atoms of our brain. Attempts have been made to

explain it by ascribing to the atom a certain degree of potential consciousness, of animate existence in the sense of the monad theory. But that is a thought construct, an assumption, to which we are forced by our manner of reasoning and our need for a unified conception of the world.

An article in which I drew attention to this fact and remarked that pure materialism is, in the end, idealism gave Georg Plekhanov a welcome opportunity, in *Die Neue Zeit* (no. 44, vol. xvi, part II), to accuse me of ignorance in general and of a complete lack of understanding with regard to the philosophical views of Engels in particular. I will not go into the manner in which the above-named arbitrarily relates my words to things that I did not in any way touch upon. I will only note that his article ends with a report that, one day, Plekhanov asked Engels: 'So do you think old Spinoza was right when he said that *thought* and *extent* are nothing but two attributes of one and the same substance?' And Engels replied: 'Of course, old Spinoza was quite right'⁹.

Now, for Spinoza, the substance to which he ascribed these two attributes is God. At least, God as identified with nature, on account of which Spinoza was, already very early on, denounced as having denied God and his philosophy was accused of being atheistical, whereas formally it appears to be pantheistic. This, however, is only disguised atheism for those who maintain the doctrine of a personal God standing apart from nature. Spinoza arrived at the concept of the infinite substance, God, with the usual attributes, and others not precisely specified, by purely speculative means; for him, systematic thought and being were identical. To that extent he concurred with various materialists, but he himself could be called a representative of philosophical materialism only by dint of a completely arbitrary meaning of the word. If we are to mean anything definite at all by materialism, then it must be the doctrine that matter is the ultimate and only ground of things. But Spinoza expressly described his substance, God, as *incorporeal*. Anyone is free to be a Spinozist, but then he is not a materialist.

I know that, in *Ludwig Feuerbach*, Engels gives two definitions of materialism which are different from the above: first, all those who assume nature to be primary are claimed for materialism, and then those who 'sacrifice every idealist crotchet which could not be brought into harmony with the facts conceived in their own and not in a fantastic interconnection'.¹⁰ These definitions give the term materialism so broad a meaning that it forfeits all precision and embraces some very antimaterialistic views. It is manifest again and again, and Plekhanov unwittingly confirms it, that rigid insistence on the term 'materialist' is rooted more in political than in scientific reasons. Whoever does not swear by thinking matter is under suspicion of political heresy; that is the moral of his article. How will I ever survive this anathema?

This key, employed by the master hand of Marx, led to a disclosure and exposition of the mechanism of capitalist economy, which is more penetrating, logical, and lucid than anything hitherto achieved. However, beyond a certain point it fails to work and has therefore become fatal to nearly every one of Marx's disciples.

The labour theory of value is misleading above all in that it appears again and again as a yardstick for the exploitation of the worker by the capitalist, an error furthered by, amongst other things, the characterisation of the rate of surplus value as the rate of exploitation. It is evident from the foregoing that it fails as such a yardstick, even if one starts from society as a whole and compares the sum total of the wages of labour with the sum total of other income. The theory of value no more provides a criterion for the justice or injustice of the distribution of the produce of labour than does atomic theory for the beauty or ugliness of a piece of sculpture. Nowadays, indeed, we find the best-placed workers, members of the 'labour aristocracy', precisely in those trades with a very high rate of surplus value and the most infamously exploited workers in those with a very low rate.

A scientific basis for socialism or communism can not be built just on the fact that the wage labourer does not receive the full value of the product of his labour. In the preface to *The Poverty of Philosophy*, Engels writes: 'Marx, therefore, never based his communist demands on this, but upon the inevitable collapse of the capitalist mode of production which is daily taking place before our eyes to an ever greater degree.'¹¹

Let us see how things stand in this regard.

⁹ G. Plekhanov, *Selected Philosophical Works* (Lawrence & Wishart, London, 1976), vol. II, p. 339.

¹⁰ MESW, vol. II, p. 386; MEW, vol. XXI, p. 292

¹¹ Preface to first German edition of Marx's *The Poverty of Philosophy* (London, 1954), p. 11; MEW, vol. XXI, p.178.

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