

Marx, Marginalism and Modern Sociology

First edition

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Contents

1. The Origins of Modern Sociology	1
Talcott Parsons and the voluntaristic theory of action	1
The problem of order and the theory of action	3
The problem of order and economic theory	5
<u>2.</u> Classical Political Economy	16
A theory of society	16
Smith's <i>Theory of Moral Sentiments</i>	17
<i>The Wealth of Nations</i>	19
Smith's contribution to social theory	25
Ricardo's completion of the system	29
Conservatism, radicalism and socialism	33
<u>3.</u> Alienated Labour and the Critique of Political Economy	38
The critique of Hegel's theory of the state	39
Private property and political economy	41
Alienated labour and private property	45
Hegel and the critique of political economy	49
The early formulation of the critique	51
<u>4.</u> Value, Class and the Theory of Society	55
The critique of political economy and the theory of value	55
The magnitude of value and the form of value	57
The theory of value and the theory of society	59
Money as a social relation	62
Capital as a social relation	66
The capitalist labour-process	69
The capitalist process of exchange	71
The 'trinity formula'	76

The 'trinity formula' and the theory of value	82
<u>5.</u> The Decline and Fall of Classical Political Economy	90
Classical political economy and the labour theory of value	90
The classical economic laws	94
Classical political economy and the birth of sociology	99
Classical political economy and the German Historical School	105
The decline and fall of classical political economy	110
The ideological roots of the marginalist revolution	118
<u>6.</u> The Marginalist Revolution: Economics and Sociology	126
The marginalist revolution	126
The problem of prices and the problem of reform	128
The marginalist theory of price	132
The marginalist theory of society	136
Facts and values in economic science	142
The theory of the social economy	144
Marx, marginalism and modern capitalism	148
<u>7.</u> From Marginalism to Modern Sociology	161
Economic theory, social economics and the tasks of sociology	161
Max Weber and the German Historical School	166
Problems of methodology: Menger and Weber	170
The marginalist foundations of Weber's sociology	176
Economy and society	184
The typology of action and the theory of society	190
Marx, marginalism and modern sociology	198

1

The Origins of Modern Sociology

Talcott Parsons and the voluntaristic theory of action

Almost fifty years ago Talcott Parsons isolated what he called a 'voluntaristic theory of action' in the work of writers as diverse as Marshall, Pareto, Durkheim and Weber. In *The Structure of Social Action* Parsons argued that the voluntaristic theory of action was the basis of a fundamental reorientation of the social sciences, marking a decisive advance in the development of sociology as a response to the 'problem of order'.

The originality of the voluntaristic theory of action is defined by contrasting it with the theories that it superseded, the *positivistic theory of action* and the *idealistic theory of action*. The positivistic theory of action 'treats scientifically valid empirical knowledge as the actor's sole theoretically significant mode of subjective orientation to his situation' (Parsons, *The Structure of Social Action*, Free Press, Glencoe, 1949, p. 79). In other words the positivistic theory treats the actor as a subject whose course of action is chosen on the basis of a rational evaluation of alternative means to given ends. The archetypal positivistic theory of action is that formulated by utilitarianism and classical political economy. It culminated in the sociology of Herbert Spencer and Social Darwinism, and the historical materialism of Marx.

An idealistic theory of action is contrasted with the positivistic theory in placing considerable emphasis on the normative orientation of action at the expense of any recognition of the objective constraints imposed by the conditions of action. The conditions of action have no objective reality, but can only be constraining to the extent that they are given subjective meaning by the actor. Thus 'in an idealistic theory "action" becomes a process of "emanation", of "self-expression" of ideal or normative factors' (Parsons, *Structure of Social Action*, p. 82). The archetypal idealistic theory of action is found in the German tradition deriving from Kant and Hegel.

While the positivistic theory ignores the role of normative elements in the determination of action and the idealistic theory ignores the role of conditional elements, the voluntaristic theory of action adopts the happy mean position of according full recognition to both, explaining action as the

2 Marx, Marginalism and Modern Sociology

result of the interaction of normative and conditional elements, recognising that the subjective orientation of action cannot be reduced to the rational adaptation of means to ends, while also recognising that the situation in which action takes place may impose objective constraints on the course of action adopted. Its superiority over the positivistic and idealistic theories seems self-evident, for it reconciles the valid elements of both within a broader synthesis.

In *The Structure of Social Action* Parsons was concerned to establish that the voluntaristic theory of action was indeed to be found in the work of the writers whom he identified as its pioneers, and to defend the claim that its emergence marked a genuine scientific advance. While he recognised that the development of the voluntaristic theory of action probably was 'in considerable part simply an ideological reflection of certain basic social changes', he postulated that 'it is not less probable that a considerable part has been played by an "immanent" development within the body of social theory and knowledge of empirical fact itself'. The observation that 'it would scarcely be possible to choose four men who had important ideas in common who were less likely to have been influenced in developing this common body of ideas by factors other than the immanent development of the logic of theoretical systems in relation to empirical fact' persuaded Parsons that the voluntaristic theory of action was indeed a scientific achievement, and not merely the expression of a common ideological perspective: 'the concepts of the voluntaristic theory of action must be sound theoretical concepts' (Parsons, *Structure of Social Action*, pp. 5, 14, 724).

Parsons was not concerned to write the history of social thought, but to invent a genealogy and an ancestral authority for his own conception of sociology. While he did establish the presence of a voluntaristic conception of action in the work of his chosen authors, there was only a very limited sense in which even Parsons's often idiosyncratic interpretations were able to establish the presence of a more substantial 'common body of ideas' in their work. Moreover in a book of almost 800 pages he devoted fewer than forty pages to the development of the positivistic theory of action and fewer than thirty to the idealistic tradition. Most of those few pages are at such a high level of generality that it is difficult to know what particular authors and works he had in mind. Thus, if he established the existence of the voluntaristic theory of action in the work of his chosen authors, he certainly did not establish its originality.

However weak the argument of *The Structure of Social Action*, it nevertheless dominated sociologists' understanding of their own past for as long as Parsons dominated their understanding of sociology. The break-up of the Parsonian consensus over the past two decades has created a need to return to that past and has opened a critical space within which such a return

is possible. But the weakness of Parsons's interpretation should not lead us to reject it out of hand. There is no doubt that the end of the nineteenth century did see a fundamental reorientation of social thought on the basis of which modern sociology has been built. There is no doubt that Parsons's chosen authors played a part in that reorientation, and that the idea of a voluntaristic theory of action throws some light on the change. Moreover the question posed by Parsons still remains to be answered: is the conception of society on which modern sociology is based an achievement of a new science of society, or does it after all have an ideological foundation? This book aims, in a relatively modest way, to take up Parsons's challenge.

The problem of order and the theory of action

Parsons's interpretation is determined by his focus on the 'problem of order' and on the 'theory of action'. Before outlining the argument of this book I should like briefly to examine the legitimacy of that focus. For Parsons the problem of order was the fundamental practical problem that must be faced by any society, and so was the defining conceptual problem for any theory of society.

Parsons defined the problem of order in essentially Hobbesian terms as an abstract problem posed by the anti-social character of human nature. The positivistic theory of action naively postulates a spontaneous harmony of interests, and so ignores the need for normative regulation as a response to the problem of order. Enlightened self-interest is a sufficient guide to action and a sufficient condition for a harmonious society. Social conflict arises from ignorance and irrationality and can be remedied by education and science. The idealistic theory of action recognises the inadequacy of this assumption and takes full account of the Hobbesian problem, but it divorces the values that determine the subjective orientation of action from the context of action so that values belong to a supra-individual and supra-empirical order of reality. Both the positivistic and the idealistic theories of action resolve the problem of order by referring beyond action, the former explaining order by reference to the external conditions of action, the latter by reference to the external system of values. Only the voluntaristic theory of action is able to resolve the problem of order within the framework of the theory of action.

The difficulty with using Parsons's schema as the basis for the interpretation of the history of social thought is that it poses the problem of order in such a way that the voluntaristic theory of action is the only plausible framework within which to resolve the problem. This makes it very hard to understand how anything but blind ideological prejudice could have led previous generations to adopt any other solution to the problem. This

4 Marx, Marginalism and Modern Sociology

should lead us to question whether Parsons's schema is the only possible one within which to interpret the development of social thought.

The problem of order is not an abstract problem; it is a concrete historical problem whose terms are defined by the character of the society within which it arises, as the problem of resolving the conflicts to which that society gives rise. The 'problem of order' presupposes that conflict is a potential problem and so only arises within a theory that defines the 'problem of conflict'. Parsons's formulation of the problem presupposes that 'a social order is always a factual order in so far as it is susceptible of scientific analysis but ... it is one which cannot have stability without the effective functioning of certain normative elements' (Parsons, *Structure of Social Action*, p. 92), but this is not a formulation which is self-evident; it is one that expresses Parsons's conception of human nature and of the nature of society.

The problem of order is also not a problem that is amenable to a single solution. The existence of potential conflict, without which there would be no problem of order, implies that the terms on which conflict is resolved and order re-established cannot be taken as given, for the imposition of order must resolve that conflict on terms favourable to one or the other party to it. In so far as a theory of society can be considered to be a response to the problem of order, every such theory defines its own problem of order, while we have to ask of that theory for whom is order a problem?

Parsons recognised that the theory of action is only one possible framework within which to conceptualise the problem of order. However he insisted on the primacy of the theory of action, and on categorising social theories on that basis. The presumption is that a theory of 'social relationships' or 'social groups' will imply a particular theory of social action, so that such a categorisation is legitimate. However such a presumption ignores the facts that social theories are necessarily abstract and that the theories of different levels of the social structure may not be commensurable, being formulated at different levels of abstraction. Thus, for example, a theory of economic relationships may abstract from non-rational elements in the subjective orientation of action without thereby implying that such elements are irrelevant at the level of the theory of action or the theory of 'social personality' (or even of political theory). At a lower level of abstraction the theory might introduce consideration of the effect of non-rational value elements on economic relationships. The theories of Adam Smith or of John Stuart Mill, the first and the last of the great classical political economists, would be good examples here.

On the other hand, a social theory may explore relationships at the structural level between the economic and political institutions of society and the typical values that orient action, without specifying any particular

relationship at the level of the theory of action. A theory of the functional interdependence of values and social structure could be consistent with a 'positivistic', an 'idealistic' or a 'voluntaristic' theory of action, or may oscillate between all three. The sociological theory of Comte (and indeed the later work of Parsons himself) might be an example of this. Although examples could be found of radical behaviourists or of radical idealists who would espouse 'positivism' or 'idealism' at the level of the theory of action, the very incoherence of such positions makes them rare in the history of social theory.

The development of the social sciences cannot be seen in unilinear terms as the progressive sophistication of the theory of action in response to the problem of order. The originality of the new theories with which Parsons was concerned lay not simply in providing new answers to old questions, but in posing different questions to which different answers were appropriate. Thus towards the end of the nineteenth century the problem of order came to be posed in new ways and the solution came to be posed within a new framework — the framework not of the theory of social structure, but of the theory of action. It is with these fundamental changes that I am concerned in this book.

The problem of order and economic theory

The central theme of this book is that for the past two hundred years economic theory has played a pivotal role in social thought, so that social theory has developed on the basis of the dominant version of economic theory. It is therefore in its relation to the development of economic theory that we have to understand the emergence of modern sociology.

The most fundamental problem that faces every individual is the problem of ensuring his or her own economic reproduction, for people must eat in order to live. In any society individuals are to some degree economically dependent on one another, so that their individual economic reproduction depends on the reproduction of the social relations of production through which their interdependence is articulated and reproduced. This is the abstract condition which gives rise to the problem of order as a concrete problem confronting any particular society.

The relations of production are not simply 'economic' relations, spontaneously created by individuals on the basis of the pursuit of their rational self-interest. They are the social relations within which economic activity takes place, the historical presuppositions of individual and social existence. The mechanisms by which economic reproduction takes place are correspondingly not purely 'economic' mechanisms, relying solely on the mobilisation of individual self-interest to secure the economic reproduction

6 *Marx, Marginalism and Modern Sociology*

of society. In general the social processes within which the economic reproduction of society is secured involve political, legal and normative regulation that call forth specific social institutions on which regulative functions devolve. Thus it is not in general the case that economic reproduction can be adequately theorised by 'economics' as an autonomous branch of the social sciences. It is only in a capitalist society, based on the generalisation of commodity production, that economic theory emerges as a specialised branch of social theory. This is because it is only in a capitalist society that the reproduction of the social relations of production comes to depend on the operation of generalised and anonymous social processes.

Within a pre-capitalist society the fundamental economic unit is the more or less extended household. While labour-power is not a commodity the household is the unit of both production and consumption and economic questions are primarily questions of household management. Thus economics, literally the science of household management, was originally contrasted with chrematistics, the science of monetary wealth. The division of labour within the household, the allocation of tasks to members of the household and the disposition of material resources are supervised, usually according to customary precepts, by the head of the household, normally a patriarch. Consideration of the economic reproduction of the household therefore necessarily involves not only economic considerations, but also consideration of customary and patriarchal authority. Economic relations between households and between more comprehensive social units are similarly regulated by political and religious authority. Thus in such a society the problem of order, as the problem of the reproduction of the social relations of production, centres on the problem of the reproduction of the patriarchal relations of political and religious authority. The problem is not one amenable to a unique solution. While the priest, chief or head of the household may identify the problem of order as the problem of strengthening patriarchal and traditional authority, subordinate members of society may identify it as one of checking the abuse of authority by democratisation and the devolution of power. Within such a society it should not be surprising to find the household providing the basic unit of social theory, and kinship providing the framework for the conceptualisation of wider social relations.

Even where exchange relations emerge in a pre-capitalist society, the terms of exchange will tend to be regulated not by market competition but by traditional authority. While production for exchange exists only on a limited scale market conditions tend to be very unstable, being vulnerable to interruptions in supply, or to irregularity of demand. In such circumstances the legal, political and customary regulation of the terms of exchange is essential to the preservation of a degree of economic stability. From the Indian caste system to the medieval 'just price', exchange relations in pre-

capitalist society do not escape direct social regulation. Even in a society with quite extensive commodity production and sophisticated political institutions the household and kinship relations continue to provide a powerful model for the conceptualisation of society. The regulation of the economy by the state, for example, continued to be considered as an aspect of the management of the royal household well into the capitalist era, and the analogy continues to this day to be a favourite rhetorical device of politicians. Within a pre-capitalist society, therefore, economic questions can only be posed within the framework of a problem of order defined primarily in political and religious terms.

The gradual development of commodity production provided an increasingly stable foundation for commodity exchange, while undermining the ability of the established authorities to regulate that exchange. The customary regulation of exchange relations therefore came under increasing pressure as those committed to the production and exchange of commodities sought to alter the terms of trade to their own advantage. Commodity producers, and, more particularly, merchants, came to form an economic interest that challenged customary authority, developing more democratic forms of political community and expressing their interest politically. In this way the development of commodity production, while not immediately challenging the foundations of the society within which it arose, presented a challenge to the established forms of social regulation that were appropriate to the problem of order of an earlier age. In the development of European capitalism it was at this stage that the model of the political community came to the fore, and economics developed from a branch of the theory of household management to a branch of political theory.

Economic theory continued to be subordinate to political theory as the economic reproduction of society was considered to depend on its reproduction as a political community. The task of economic theory, in the forms of mercantilism, cameralism and canonism was to advise the sovereign on how best to regulate the economy in order to enhance the wealth and power of the state. Such theories confined their economic attention essentially to exchange relations, seeing economic advantage to lie in securing an advantageous exchange and seeing in political power the means to achieve such advantage, while the wealth so secured was considered to strengthen the state in pursuit of its domestic and foreign ambitions. Of course such theories were vehemently contested both by the representatives of the old order, who continued to assert the rights and privileges of customary authority, and by the mass of the population who appealed to old conceptions of the social obligations of property and the paternalistic obligations of authority in the face of the rigorous discipline of the market and the privatisation of property.

8 *Marx, Marginalism and Modern Sociology*

This period was transitional in that the more rapid growth of commodity exchange progressively altered the conditions of commodity production as petty production by independent producers, often subordinated through the guild system, and later through contract, to capitalist merchants, gave way to the capitalist production of commodities on the basis of the purchase and sale of labour-power. The growth of capitalist production, often beyond the reach of effective regulation, presented a growing challenge to the forms of political regulation of exchange developed in the transitional period. The pressure was both economic, as competitive pressures eroded monopolistic regulation, and political, as the new capitalists pressed for an end to such restriction. The new capitalist interests were best served by unregulated competition, both in the markets for products and, at least as importantly, in their relations with the emerging working class, in order to expand the market, drive out more backward producers and force down labour costs. Such interests were not necessarily inimical to those of the state, for the economic erosion of mercantile monopolies undermined the mercantilist policies as much as the challenge of the new political economy undermined mercantilist theory.

The growth of capitalism rapidly eroded the customary and political regulation of economic relationships. The direct regulation of economic relationships had become a barrier to the accumulation of capital and was swept away as economic relationships came to be regulated exclusively by the laws of competitive exchange. Whereas mercantilism identified prosperity with monetary wealth, and saw political power as the means of securing such wealth, classical political economy identified prosperity with the development of the forces of production and saw direct political intervention as a restraint on that development. However, classical political economy offered much more than a theory of the 'nature and causes of the wealth of nations' (Adam Smith). Where mercantilism developed within the framework of a political theory which defined the problem of order in political terms as the problem of the reproduction of the authority relations that constituted the political community, political economy inverted the relation between economic and political theory, an inversion that corresponded to the inversion of the relationship between the economic and the political community characteristic of the development of capitalism.

In the new society the social relations of production were freed from direct regulation and came instead to be regulated by the 'hidden hand' of the market. The state was still required to maintain 'order and good government' by giving legal and political backing to the rights of property, and the Church was still required to defend the sanctity of property, while forgetting about its sacred obligations, but the authority of the state was not justified politically, as a direct response to the problem of order, but was rather

derived from a consent founded in enlightened self-interest and so based on an economic theory that derived the rights of property from the rationality of the market. Thus the economic theory developed by classical political economy was the core of a social theory that sought to address the problem of order posed by the emergence of the new, capitalist, form of society.

Classical political economy did not suppress the problem of order in complacently assuming a 'natural identity of interests' as Parsons, following Halévy, would have us believe. Classical political economy could hardly ignore the problem of order. Born in the year of the American Revolution, matured under the shadow of the French Revolution, revitalised in the Year of Revolutions and dying on the eve of the Paris Commune, political economy was a theory forged in the major political conflicts of the nineteenth century, and the central concern in all those conflicts was the problem of order, the problem of the viability of capitalist society and of the proper regulation of capitalist class relations. Political economy did not ignore the problem of order, it redefined it.

Political economy matured in a period in which the French Revolution and its aftermath had raised widespread fears in the dominant class that the breakdown of traditional forms of social regulation could lead only to revolution and anarchy as unregulated economic conflict led to an increasing polarisation between property and the propertyless mob. The dominant response to this problem was one of conservative reaction and of brutal repression as property closed its ranks in defence of hereditary rule, the established church and its own rights and privileges against the democratic mob that countered the rights of property with the rights of man. This reaction was associated with a resort to traditional social theories, on the basis of which the sanctity of property and of political and religious authority was reasserted and the unviability of capitalist social relations, that rejected such authority, was heralded. By contrast, radical, and later socialist, theories were enthusiastically espoused by the working class and the petty producers who faced exploitation and expropriation with the advance of capital. These theories also questioned the viability of a society based on economic inequality and consequent class conflict, developing liberal political theories from a critique of political privilege into a critique of property and counterposing to capitalism a society based on freedom, equality and co-operation.

Conservative, radical and socialist theories all based their models of capitalism on the conflict of interest that was inherent in exchange relations, relations in which one party gains at the expense of the other. It was this conflict of interest that, for them, defined the problem of order that was posed by the development of capitalist society, a problem that could only be resolved by a return to medieval forms of social regulation or by an advance

10 Marx, *Marginalism and Modern Sociology*

to socialist forms. Any attempt to theorise the possibility of capitalist society, and so resolve the problem of order posed by such a society, had to establish that underlying the conflict of economic interest that appeared in the exchange relation was a more fundamental harmony. This could only be achieved, in the first instance, within an economic theory and it was such a theory that classical political economy proposed. The achievements of political economy in theorising the possibility of a capitalist society, however inadequately, have been so deeply assimilated into modern social thought that they now appear trivial, a naïve assumption of the natural identity of interests, rather than the conceptual resolution of the fundamental problem of order posed by capitalist society: how is a society based on social relations of production regulated through market exchange possible?

Classical political economy conceptualised capitalist society within the framework of a theory of production, distribution and exchange. The theory of production saw in the extension of the division of labour and the application of machinery the basis for a growing productivity of labour. The theory of exchange conceived of market relations not as unregulated conflicts of economic interest, but as social relations regulated by the hidden hand of the market. Behind the superficial conflict of interests in the market competition ensures that exchange works for the common good. Through the market every individual can avail him or herself of the opportunity for self-improvement, the market ensuring the advance of the most enterprising and so fostering the further development of the division of labour and increase in national wealth. Of course the market is not without its victims. Those who cannot adapt to its requirements will be disciplined by the hidden hand. But to protect people from the consequences of their own ignorance and irresponsibility would be to remove all incentive to self-improvement. Thus the benefits of exchange far outweigh its costs.

The classical theory of distribution attributed revenues to the owners of the factors of production — land, labour and capital — that defined the three component classes of society. The theory of distribution was thus a theory of the relations between those three classes. At the level of distribution there appeared to be clear conflicts of interests between the component classes of capitalist society. Thus the problem of order is raised most particularly by the theory of distribution and here political economy certainly did not, in general, assume a ‘natural identity of interests’ (Halévy and Parsons). However class interests could be reconciled within the framework of capitalist society and classical political economy conceptualised this reconciliation within the framework of a theory of economic growth. Thus the apparent distributional conflict that arose out of the exchange relations between capitalists, landlords and workers was resolved in a dynamic context and within an appropriate constitutional framework.

Adam Smith argued that landlords and wage-labourers had a common interest in economic growth, while the big capitalists had an opposing interest in the preservation of their privileged monopolies. Thus an appropriate constitutional framework was one in which the powers of capital were checked by a balanced constitution. Ricardo, by contrast, argued that capitalists and wage-labourers had a common interest in the unrestricted growth of capitalism, while the landlords had an opposing interest in restrictions that would, directly or indirectly, increase rent at the expense of profit. For Malthus the need for unproductive consumption to avoid the dangers of overproduction gave a rationale to the landlord's existence, while Say, Bastiat, Carey and the 'vulgar economists' dissolved all conflicts of interest in asserting the fundamental harmony of all three classes.

The economic theories of classical political economy resolved the problem of order by revealing a harmony of interests beneath the apparent conflict of social relations of exchange and distribution, a harmony that could be realised through the unrestricted operation of the hidden hand of the market. It thereby established the viability of capitalist society and showed that such a society could be ruled by reason and not by custom, as social order and class harmony were achieved on the basis of action oriented by enlightened self-interest. The political economists were not so foolish as to believe that conflict did not exist. Smith had shown how big capitalists could abuse their position to secure their own advantage, while Ricardo had shown how aristocratic privilege could conflict with the interests of the other classes of society. Moreover both indolence and poverty bred ignorance and superstition so that the idle rich sought to preserve paternalistic regulation, while the unfortunate poor fell prey to demagogic agitation. However the remedy for such social evils was not repression but education so that the liberal ideal of a society based on reason within which freedom was reconciled with order could be achieved.

The stabilisation of capitalist society in the post-Napoleonic period justified the political economists' faith in the viability of capitalism. However the persistence of national and class conflict, particularly in continental Europe, presented a challenge to the optimism of political economy that led its critics to question its assertion of the unqualified benefits of unrestrained competition. Thus social theories were developed which, while not questioning the viability of capitalist society, did question the extent to which such a society could dispense with the political and moral regulation of social relations.

These new theories developed in polemical opposition to classical political economy, emphasising the priority of ethical and political considerations against the preoccupation of political economy with base self-interest and stressing the need for political and moral regulation. Comte counterposed his

12 Marx, Marginalism and Modern Sociology

sociology to the dogmas of political economy, while the German Historical School stressed the need for concrete historical investigation to complement or supplant the abstract theories of the economists. However, despite their opposition to political economy, they could not challenge the priority of economic theory, for such a priority was not established on the basis of particular assumptions about the role of self-interest, but was imposed on social theory by the nature of capitalist society. That capitalist social relations took the form of economic relations regulated by the hidden hand of the market was not an assumption of political economy, but a fact of life. What sociology and historicism contested was that self-interest and the hidden hand were alone sufficient to achieve the harmonious integration of society. They therefore contested the validity of the economic laws proposed by political economy, but nevertheless presupposed some kind of economic theory that could establish to what extent self-interest and the hidden hand were insufficient and so had to be complemented by moral and political regulation. To the extent that they did not develop such a theory, but rested only on a pragmatic evaluation of the limits of *laissez-faire*, sociology and historicism were unable to give a rigorous definition of the problem of order to which moral and political regulation was supposed to respond.

Classical political economy was ultimately a victim of the widespread loss of conviction in the unqualified virtues of *laissez-faire* that developed in the last quarter of the nineteenth century, particularly in response to the need for increasing state intervention in the economy and above all in response to the growing movement for social reform that accompanied the rise of an organised working class. Political economy had relied on its economic laws to justify a regime of *laissez-faire*. The collapse of *laissez-faire* threw those economic laws into question and revealed how weak were the theoretical foundations on which political economy stood. On the one hand, there was a widespread movement away from political economy in favour of a more pragmatic approach to the problem of order drawing on sociology and historicism to justify much needed social reforms. On the other hand, it was apparent that a new economic theory was required that could provide a more rigorous analysis of capitalist economic relations than had been provided by political economy. Such a theory was not simply required to establish the virtues of capitalism by reformulating the classical solution to the problem of order. It was also required to provide a framework within which to establish the limits of the *laissez-faire* principle, and so to establish a principled foundation on which to evaluate the possibilities and limits of social reform. It was this economic theory that was developed in the course of the marginalist revolution.

Classical political economy was built around a theory of growth and distribution that conceptualised capitalist relations of production within the

framework of a dynamic structural theory of class relations. The social theories of Comte and of German historicism were likewise constructed within such a structural framework, super-imposing the political and moral regulation of those social relations onto the classical economic model. Thus capitalist society was conceptualised within an evolutionary theory whose principle was the development of the division of labour and whose stages were stages within that development with which were associated particular forms of morality and particular forms of political regulation. The relations between economic, moral and political institutions were relations of functional interdependence, and the various theories might assign priority to one or the other in the development process. Thus, for example, in the evolution of the German Historical School emphasis shifted from seeing the development of the division of labour as the motor of history to a more pragmatic approach that tended to place most emphasis on the development of the system of morality. Similarly, although Comte defined the stages of evolution primarily in terms of their intellectual and moral characteristics, he nevertheless often appeared to see the development of the division of labour as the prime mover.

These variations are important, for they make it impossible to classify these theories unambiguously within Parsons's schema of theories of action. The reason for this is not so much that the theories are inconsistent, as that they are not formulated at the level of the theory of action, but at the level of social structure and this makes their classification in terms of the theory of action inappropriate. However the absence of a theory of action underlying Comte's sociology and German historicism is, from a liberal point of view, a serious weakness for it corresponds to a failure to reconcile the need for political and moral regulation of social relations with the freedom of the individual. A theory of social structure that does not rest on a theory of action too easily attributes a spurious objectivity and a spurious authority to the state and to the system of morality because it does not relate these institutions back to the individual needs and aspirations to which they should, in liberal eyes, respond. Such a theory therefore provides no means of checking the authority of the state or of the Church and so easily acquires a conservative or a socialist bias. Classical political economy was deficient in being unable to reconcile the need for social order with the freedom of the individual. Comtean sociology and German historicism were deficient in being unable to reconcile the freedom of the individual with the need for order, which determined the need for moral and political regulation. It is in this sense that an adequate liberal theory of society had to be formulated on the basis of a voluntaristic theory of action. The weakness of nineteenth-century political economy and social theory was not so much the inadequacy of their underlying theories of action as their failure to elaborate the theory of

14 *Marx, Marginalism and Modern Sociology*

action at all. The importance of the marginalist revolution in economics was that it reformulated economic theory on such a basis and so opened the way to modern sociology.

Marginalist economics rejected the classical theory of distribution and the associated theory of social class, to develop an individualistic economic theory on the basis of a rigorous analysis of exchange. The starting point of marginalist economics was the individual, endowed with given tastes and resources, rationally allocating those resources on the basis of his or her preferences in conditions of scarcity. On this foundation marginalist economics analysed the economic institutions of the division of labour, including the functional specialisation of labour and capital, private property, the market and money as instruments rationally adapted to the optimal allocation of resources.

Such an analysis appears at first sight to be merely a more rigorous formulation of the dogmatic laws of classical political economy and so no more adequate as a basis on which to construct a theory of society than the latter. Where classical political economy was implicitly based on a positivistic theory of action, marginalist economics merely made that foundation explicit. However, in doing so, marginalism also brought into the open the abstract character of economic theory and by making the basis of its abstraction explicit, it also created the space within which complementary disciplines, appropriate to other orientations of action, could develop. Thus, where classical political economy claimed to offer a social theory adequate to the reality of capitalist society, marginalist economics self-consciously developed a theory that abstracted from the particular social and historical context within which economic activity takes place. In this sense marginalism claimed to offer not a social theory but a pure theory of rational choice.

The application of marginalist economics involved the introduction of social and historical considerations, particularly with regard to the distribution of resources and to the role of ignorance and irrationality. Thus social economics qualified the optimistic conclusions of pure theory, analysing the extent to which inequalities of economic power, the development of monopoly, the imperfect exercise of rationality and the intervention of the state distort the harmonious equilibrium defined by pure theory and introduce economic conflict into the model of perfect competition. While social economics continued to be a branch of economics, in presupposing the rational pursuit of self-interest to be the only basis of social action, marginalist economics also leaves a space for sociology. Within the framework of the theory of action, economics is defined as only one branch of the social sciences, the science that studies the consequences of rational economic action. Once it is recognised that economics is an

abstract discipline, not one that claims a monopoly of knowledge of society, sociology can emerge as the discipline that studies the consequences of non-rational action and of action oriented to other than economic goals, the discipline that takes account of the normative orientation of action and so that locates economics within the framework of the voluntaristic theory of action.

The task of developing such a sociology fell to Max Weber, who is the most important figure in *The Structure of Social Action* and who took it upon himself to formulate a systematic typology of action as the basis for the social sciences. Weber classified social actions according to the ends to which action was addressed and the values that oriented the action. Within his typology economic theory had a place as the theory that develops the ideal-typical forms of rational economic action, while sociology develops ideal-types corresponding to all other forms of action. Within this framework Weber was able to locate capitalist society not in economic terms, as a society which is subordinated to the pursuit of economic ends, but sociologically, as a society characterised by a particular value-orientation of action, a rational orientation. This rationality is characteristic not only of economic action, but also of political action and of the characteristic ethical system of capitalist society. Moreover the development of capitalism within this framework is not seen as an economic process, for capitalist economic development presupposes the development of a rational value-orientation. Thus the development of the capitalist economy is only one aspect of the rationalisation of Western society.

The conclusion of this brief survey is that Parsons was right to identify the voluntaristic theory of action as the foundation of modern sociology. He was right to see the emergence of such a theory at the end of the nineteenth century as marking a decisive change that made it possible to resolve the problem of order within the framework of an integrated liberal social theory, even if his characterisation of the development of social theory was inadequate. However the fundamental question raised by Parsons remains to be answered. Does the development of the voluntaristic theory of action represent a decisive scientific advance, or does it rest on an ideological foundation? I hope that in the following chapters I shall be able to develop my argument sufficiently to convince the reader that the voluntaristic theory of action does not provide an adequate foundation for the understanding of capitalist society, and that while it has some pragmatic value, its theoretical foundations are essentially ideological.

2

Classical Political Economy

A theory of society

Nineteenth-century social thought was dominated by classical political economy, a set of doctrines that served as a negative point of reference where it did not act as a positive inspiration. For this reason classical political economy has to be the starting point for any serious study of Marxism or of modern sociology, for both were born out of debates that surrounded classical political economy.

The term ‘classical political economy’ refers to theories developed between the seventeenth and nineteenth centuries that sought to conceptualise the structure of society on the basis of an understanding of society’s economic foundation. The starting point of these theories was the abstract individual of liberal political theory, but they sought to advance beyond this abstraction by locating the individual socially. The basis on which this social location of the individual was achieved was that of economic function. Thus classical political economy saw society as being composed of social classes which were defined on the basis of different economic functions and whose social and political interaction was oriented by their economic interest and structured by the development of their economic relationships. The main concerns of classical political economy from Petty to J. S. Mill were to identify the social classes that comprised society, to define the economic relationships between these classes and to discover the laws that governed the development of these relationships. In a very literal sense classical political economy saw its task as being the construction of a science of society. The economy was not seen as a realm independent of society. For classical political economy the economy was the heart and soul of society.

The history of classical political economy is the history of the attempt to develop this model of the economic foundation of society, in abstraction from those causes ‘that depend on the mutable minds, opinions, appetites and passions of particular men’ (Sir Wm Petty, *Political Arithmetick*, in *Economic Writings of Sir Wm Petty*, vol. I, Reprints of Economic Classics, New York, 1963, p. 244) finding the ‘inner physiology of bourgeois society’, as Marx called it, in the economic relations between classes (K. Marx, *Theories of Surplus Value*, FLPH, Moscow, n.d., 1968, 1972, II, p. 165).

This depended on isolating the economic foundations of social relations from extraneous moral, political or religious considerations. The most complete and satisfying development of political economy is to be found in the work of Adam Smith, which located the analysis of economic relationships within a comprehensive theory of society, while its most rigorous economic development is found in the work of David Ricardo.

Smith's Theory of Moral Sentiments

Smith's theory of society is to be found in three works: *The Theory of Moral Sentiments*, *The Lectures on Jurisprudence* and *The Wealth of Nations*. The historical framework for Smith's analysis of his own society is provided by what Meek has called the 'four-stages theory' (R. Meek, *Social Science and the Ignoble Savage*, CUP, Cambridge, 1976). According to this theory the mode of subsistence is the fundamental determinant of the forms of property and government, social institutions and moral sentiments current in a society. There are four fundamental modes of subsistence underlying the four types of society: hunting, pasturage, agriculture and commerce. These stages are arranged in an ideal evolutionary succession of material, and corresponding moral, political and intellectual progress. The basis of this progress is the extension of the division of labour which gives rise to growing social differentiation: between town and country, arts and manufacture, different occupations and professions, and different social classes. The extension of the division of labour increases the social surplus which, if properly applied, furthers the division of labour and leads to a diffusion and proliferation of property. This in turn provides the foundation for the growing independence of the state, set up to defend property, from any particular interest, and for the progress of the moral sentiments.

In *The Theory of Moral Sentiments* Smith explored the material foundation and social development of the moral sentiments. Smith's starting point was the materialist assertion that 'the understandings of the greater part of men are formed by their ordinary employment'. However Smith did not adopt the utilitarian thesis, advanced later by Bentham, that people were guided by pure self-interest, nor even Hume's limited identification of utility with pleasure. For Smith the moral sentiments were formed socially and the basis of the moral judgement was the sense of 'propriety', of the beauty of a well-ordered whole. The basis of judgements of propriety was 'sympathy', the ability to adopt the position of the 'impartial and well-informed spectator' in relation both to our own and other people's conduct and it was sympathy that conditioned our approval of 'benevolence', of conduct that was conducive to the well-being of society. For example, people did not desire wealth for its own sake, for Smith had a puritanical scepticism about the pleasures derived

from wealth, but for the sake of the social approbation that was attached to the possession of wealth. The source of the moral sentiments was passion and not reason, but the effect of the mechanism of sympathy was that socially beneficial passions were endorsed while harmful passions were condemned. Thus the empirical principle of sociability replaced the natural-law principle of obligation.

Sympathy is not sufficient to restrain the negative impulses that express 'self-love'. A degree of self-love is necessary for every individual to fulfil his or her social role so that in seeking to achieve his or her own interests social benefits ensue. However, unmoderated self-love could have harmful effects when not restrained by benevolence, as selfishness led the individual to seek his or her ends by anti-social means. Such selfishness could be the result either of inadequate moral restraint, as when the individual had only a restricted circle of social contacts, or of ignorance, where individuals were inadequately aware of their own best interests. Thus moral education and a wide circle of social contacts, such as were provided by an extended division of labour, would contribute to the perfection of the moral sentiments.

Smith's theory of moral sentiments provided a neat account of the moral order of society such as would be recognisable to any modern sociologist. But for Smith this moral order was strictly subordinate to the economic order whose reproduction it served. Thus it was not the basis of his theory of society, but provided only a link in the explanation of how a society based on the pursuit of self-interest could be sustained. Moreover the moral sentiments alone were not sufficient for the maintenance of good order in society. Above the moral sentiments stood the state, and beneath them lay the division of labour.

In Smith's *Lectures on Jurisprudence* he examined the nature and functions of the state, part of which discussion was resumed in *The Wealth of Nations*. The state was seen as a set of institutions which had a strictly limited, and largely negative, role in preserving a good social order. The state was the repository of *law* rather than of *authority* and its primary function was to protect the rights of the individual as a man, as a member of a family, and as a member of society. Smith argued that 'justice ... is the main pillar that holds the whole edifice' (Smith, *Theory of Moral Sentiments*, Clarendon, Oxford 1976, p. 86). This was not because justice could ordain the propriety of social relationships, for benevolence could not be enforced, but because only justice could preserve the rights of the individual to life, liberty and property and so guarantee the framework of civil society within which benevolence can moderate the abuses of misguided self-love. This framework was provided by the relationship of the individual to his (not usually her, because the woman was a dependent member of a patriarchal family) legally acquired property and by the relationships established by the

division of labour that were mediated by the free and equal exchange of property.

The Wealth of Nations

Both the theory of moral sentiments and the theory of the state depended on this identification of the moderated and restrained pursuit of self-interest with the improvement of social well-being. It was this identification that was first systematically theorised in *The Wealth of Nations*, which was the foundation of Smith's entire social and political theory.

For Smith, progress was identified with the extension of the division of labour, including the application of machinery, that was the foundation of the increasing productivity of labour.

This division of labour ... is not originally the effect of any human wisdom ... It is the necessary, though very slow and gradual consequence, of a certain propensity in human nature which has no such extensive utility; the propensity to truck, barter and exchange one thing for another.

This propensity, Smith argued, was probably 'the necessary consequence of the faculties of reason and speech', rather than being inscribed in human nature, through the rational consideration that if I want the help of others I do better to interest their self-love in my favour than to appeal to their benevolence alone (Smith, *The Wealth of Nations*, Dent, London, 1910, vol. I, pp. 12, 13). Thus each, in rational pursuit of his or her own ends, achieved spontaneously the progressive extension of the division of labour. The extension of the division of labour was limited by the extent of the market. The expansion of production enlarged the market, providing the basis for an extension of the division of labour, and so for a further expansion of production. The extension of the division of labour, if confronted by no 'unnatural' barriers, was thus a cumulative process.

Smith established that free exchange was the condition for the most rapid development of the division of labour and so of the wealth of nations. However it is not sufficient to consider only the production and exchange of wealth. The problem of the proper regulation of society is raised most particularly by the question of the distribution of the product. Smith's great originality lay in his development of a theory of distribution that enabled him to conceptualise the different interests of the different classes of society and so to identify the best means of reconciling their interests. It was Smith who first systematically introduced into social theory the fundamental distinction between the three component classes of capitalist society, the owners of

‘stock’, the landowners and the wage-labourers. He achieved this by means of an analysis of the component parts of the price of a commodity.

Smith’s account of the component parts of the price of a commodity was notoriously ambiguous. On the one hand, he argued that profit and rent in some sense represented deductions from the product of labour: the labourer now had to share his or her product with the capitalist and landowner. If this were the case then the value of the commodity would be the amount of labour bestowed on it and it would not be self-evident that the interests of the labourer coincided with those of the capitalists and landowners since profits and rent could increase, given the productivity of labour, only at the expense of wages. On the other hand, Smith argued that profit and rent did not represent deductions from the product of labour, but corresponded in some way to the original contributions made to the product by capital and land. Thus profit, rent and wages were independent component parts of the value of a commodity and there was no reason to conclude that increasing rents and profits were at the expense of wages. This latter is the argument that Smith typically adopted in *The Wealth of Nations*. Thus, for example, he tended to argue that an increase in money wages would not lead to a fall in profits but to an increase in prices. He then introduced the distinction between the producer and the consumer, so that price increases were passed on to the consumer, failing to recognise that the consumer could ultimately only be the wage-labourer, capitalist or landowner wearing another hat. The introduction of this device of the consumer frequently prevented Smith from following through the logic of his arguments in a systematic investigation of the social relations between the component classes of society.

The purpose of the examination of the component parts of price was not to lead into an examination of prices but to establish the basis on which the national product is divided between the component classes of society: ‘wages, profit and rent, are the three original sources of all revenue as well as of all exchangeable value. All other revenue is ultimately derived from some one or other of these’ (Smith, *Wealth of Nations*, vol. I, p. 46). In particular, interest is a deduction from profit and taxation is a drain on revenue. Smith turned to the examination of the determination of the different forms of revenue and so to the material foundation of the interests of the different social classes that comprise society.

It is in considering the different forms of revenue independently of one another that Smith definitively abandoned the *embodied labour* theory of value in favour of a theory of the independent component parts of value. He retained a labour theory of value only in the sense that he uses *labour commanded* as the most convenient measure of value, because he believed that this provided the most stable standard of value (although it should be added that he was not altogether consistent in this). Thus the labour value of

a commodity was not the number of hours of labour entailed in its production, but the number of hours of labour that could be commanded by its price. The latter would be greater than the former to the extent of profit and rent. Thus the theory of value analysed the independent component parts of the *real price* of a commodity, only introducing the labour standard in order to facilitate long-period comparisons that abstracted from the changing value of money. Smith's labour theory of value served not as the basis of his analysis of social relations between the classes, but only as a convenient accounting device.

The rapid abandonment of the embodied labour theory of value had important implications, for it meant that the revenues of the different classes could be considered independently of one another. This meant in turn that Smith was not compelled to consider systematically the relation between these revenues, nor the social relations between the classes that comprise society. Smith considered the three original sources of revenue not in relation to one another, but in relation to their independent contributions to, and benefits from, economic growth. The interdependence of these classes was located only in the technological interdependence of the factors of production to which the revenues correspond, as an aspect of their co-operation in the division of labour. Land, labour and stock are the universal foundations of social differentiation and are considered on a par with other functional distinctions, such as that between agriculture and manufacture, as aspects of the technical division of labour characteristic of any developed society. This is why Smith could not conceive of any but the simplest society except in terms of the categories appropriate to his own, and this is why he proceeded immediately from 'that early and rude state of society' to a society in which stock has accumulated in the hands of particular persons who 'will naturally employ it to set to work industrious people' (Smith, *Wealth of Nations*, vol. I, p. 42).

Wages are determined by the balance between the supply of and the demand for labour. However 'there is a certain rate below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour' (Smith, *Wealth of Nations*, vol. I, p. 60). In the wage bargain the masters have the upper hand, so the tendency is for the wage to fall to this minimum. However an increasing demand for labour, associated with an increasing revenue in the form of profit and rent which constitutes the fund out of which wages are paid, enables the labourers to 'break through the natural combination of masters not to raise wages'. 'The demand for those who live by wages, therefore, necessarily increases with the increase of the revenue and stock of every country and cannot possibly increase without it'. Hence the labourers have an interest in the progressive increase in rent and profits since this alone can secure increased wages for

them. Moreover the 'liberal reward of labour' is socially beneficial: 'No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable'. More to the point, the liberal reward for labour encourages the growth of population and encourages the 'industry of the common people'. The effect of accumulation on wages is beneficial to the workers, to the masters and to the nation (Smith, *Wealth of Nations*, vol. I, pp. 58–61, 70–73).

Profits are necessary to encourage the owner of stock to hazard his stock by employing labourers. The size of profits, however, is determined by the relation between the size of stock and the opportunities for its employment. Although the opening of new investment opportunities may lead to an increase in profits, Smith assumed that the general tendency is for the increase of stock to lower profit as competition between the owners of stock for investment opportunities increases. Thus accumulation tends to increase wages but to lower profits. However it is not the former that causes the latter, although low wages can be a source of high profits and vice versa, but rather it is the independent relationship between the supply of investment funds and the opportunities that confront them that determines the decline in profits. Thus in a society in which opportunities are so exhausted that accumulation reaches its limits, both wages and profits will be low.

Accumulation, although it increases the mass of profits, tends to lower the rate of profit. This means that the owners of stock have an ambiguous interest in economic progress, and are tempted to seek to increase the rate of profit artificially. Such measures are, however, extremely harmful to society. 'In reality, high profits tend much more to raise the price of work than high wages' (because high wages encourage industriousness and growth of population). Thus high profits restrict the growth of the market and so the extension of the division of labour.

Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with respect to the pernicious effects of their own gains (Smith, *Wealth of Nations*, vol. I, pp. 87–8).

Smith's analysis of rent is even more ambiguous than his analysis of profit. On the one hand, rent is seen not as an independent component of the price but as whatever is left over after normal wages and ordinary profits have been deducted. An increase in rent can therefore be only at the expense of wages or profits. Rent is not a form of profit, due as a result of investment of stock in the land, but is a 'monopoly price' determined by 'what the farmer can afford to give'. Thus

rent ... enters into the composition of the price of commodities in a different way from wages and profits. High or low wages and profit are the causes of high or low price; high or low rent is the effect of it (Smith, *Wealth of Nations*, vol. I, pp. 131–2).

However, if rent is a deduction from price the question arises of what determines the price: it cannot be determined by the sum of profits, wages and rent if rent depends in turn on price. Smith's answer was to follow the physiocrats in relating rent to the natural fertility of the soil. Thus the total product is fixed and rent is what remains after the deduction of wages and profits. It arises because the natural powers of the soil make agriculture more productive than manufacture. Clearly, however, rent depends not on the size of the product, but on the value (price) of the product. Thus Smith went into an extended investigation of the relationship between the prices of agricultural produce, of other raw materials, and of manufactured goods. The basic conclusion is that the relative prices of non-food raw materials rise and those of manufactures fall in relation to the prices of foodstuffs, so that 'every improvement in the circumstances of society tends either directly or indirectly to raise the real rent of land, to increase the real wealth of the landlord' (Smith, *Wealth of Nations*, vol. I, p. 228). This argument may explain why rent should increase, but it does not provide any explanation either for the existence or the level of rent. However the conclusion that Smith had reached is the one that was essential to him, for it enabled him to identify the interest of the landowner with the general improvement of society, for the landowners gain from 'every improvement in the circumstances of the society', and this was of fundamental importance in the constitutional circumstances of Smith's time.

Smith concluded his investigation of rent by examining the interests of the 'three different orders of people': 'those who live by rent', 'those who live by wages', and 'those who live by profits'. The interest of the first order, the landowners, 'is strictly and inseparably connected with the general interests of society'. However the landowners are 'too often defective' in their knowledge of their own (and thus the public) interest.

That indolence, which is the natural effect of the ease and security of their situation, renders them too often, not only ignorant, but incapable of that application of mind which is necessary in order to foresee and understand the consequences of any public regulation ... The interest of the second order, that of those who live by wages, is as strongly connected with the interest of society as that of the first ... But though the interest of the labourer is strictly connected with that of the society, he is incapable

24 Marx, *Marginalism and Modern Sociology*

either of comprehending that interest or of understanding its connection with his own.

The labourer is only heard on particular occasions 'when his clamour is animated, set on, and supported by his employers, not for his, but for their own particular purposes'.

Those who live by profit are those 'whose stock puts into motion the greater part of the useful labour of every society'. But the rate of profit tends to fall with progress and the great merchants and manufacturers, although they have 'more acuteness of understanding' than the landowners, are concerned with their own particular interests rather than with those of society. 'The interest of the dealers ... is always in some respects different from, and even opposite to, that of the public', and they have exercised their own abilities to impose on the gullibility of the other orders of society, having 'an interest to deceive and even to oppress the public' by narrowing competition (Smith, *Wealth of Nations*, vol. I, pp. 230–2).

The constitutional conclusions that Smith reached are developed later in *The Wealth of Nations* and elsewhere, but they can be summarised as the need for a balanced constitution, in which the oppressive dangers of 'monarchy' are balanced by 'democracy', the parliamentary representation of property, and the need for public education, to which Smith attached great importance. Public education is desirable because the state of society does not 'naturally form' in the people 'the abilities and virtues which that state requires' so 'some attention of government is necessary in order to prevent the almost entire corruption and degeneracy of the great body of the people', so making them 'the less liable ... to the delusions of enthusiasm and superstition, which, among ignorant nations, frequently occasion the most dreadful disorders ... less apt to be misled into any wanton and unnecessary opposition to the measures of government' (Smith, *Wealth of Nations*, vol. II, pp. 263–9). However, Smith is not too confident of the powers of reason in the face of the persuasive power of the merchants and manufacturers. Smith's conclusion is that

all systems of either preference or of restraint ... being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and his capital into competition with any other man, or order of men. ... According to the system of natural liberty, the sovereign has only three duties to attend to ... first, the duty of protecting society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every

member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions (Smith, *Wealth of Nations*, vol. II, p. 180).

The good order and progress of society depends on the existence of a state that will maintain justice, and so the rule of competition, and on the development of the moral sentiments that will be advanced by the growth of industriousness and the extension of the division of labour, and that will be endorsed by the development of education.

Smith's contribution to social theory

Smith is best remembered today as an economist and as the theorist of economic liberalism. However, as economics his work is eclectic and unsystematic. His theory of wages derives from the physiocrats, his theory of rent still rests on physiocratic prejudice and his theory of profit at best rests on an implicit extended physiocratic identification of profit with the productive powers of stock. His account of the interests of the fundamental classes of society is equally unsystematic. He recognises the morally harmful effects of large-scale industry and of the division of labour on the working class, so his identification of the interests of the workers with those of society rests wholly on the postulate that accumulation, and accumulation alone, can increase wages. His identification of the interests of the landowners in the improvement of society is equally tenuous, depending on an intuitive, if not wholly implausible, analysis of the relations between prices of foodstuffs, minerals and manufactured goods. His identification of the relation of the owners of stock to accumulation rests on the neglect of any systematic investigation of the fundamental relationships between profits, rent and wages, and between the rate of profit and the rate of accumulation. Finally, his defence of economic liberalism rests more on faith than on any systematic analysis.

However the fundamental importance of Smith's work is not its contribution to economics, but the fact that it opens up an entirely new approach to society which earlier writers had partially anticipated, but which Smith first presented as a systematic and relatively coherent whole. Smith's contribution can be summed up under three headings. Methodologically he was the first systematic social theorist to break definitively with the natural-law tradition and so to set the study of society on an empirical foundation. In this he replaced the rationalistic foundation of physiocracy with the empiricism of his friend David Hume. Theoretically, he was the first to

develop a systematic materialist conception of history based on the determining role of the mode of subsistence. Finally, the originality of his contribution is consummated in his theory of social class, for he was the first to analyse systematically the emerging capitalist society in terms of the fundamental class division between capitalists, landowners and wage-labourers.

To many it may seem strange that Adam Smith, who is best known as the theorist of liberal individualism, should be acclaimed for his contribution to the class theory of society. However, there is no paradox here, for in Smith's work there is no conflict between individual aspiration and class affiliation. Smith's conception of social class is quite different from the medieval conception of an estate, a corporate body of which membership entails differential rights and obligations. Social classes are not corporate entities in this or in any other sense.

Social classes arise because of the functional differentiation, established in the course of development of the division of labour, between labour, land and stock as factors of production. All means of subsistence derive from the collaborative employment of land, labour and stock, and all revenues derive ultimately from one or other of these factors of production. The interests of different members of society depend on the ultimate source of their revenues. Because the different forms of revenue are determined differently, the three factors of production which constitute the ultimate sources of all revenues define three differential class interests. However much they may conflict with each other in competition capitalists, for example, have a common interest as owners of stock in relation to the owners of land and labour. Moreover, because there are ultimately only three sources of revenue in society there are only three social classes. All 'intermediate strata', such as lawyers, priests, or government employees, must ultimately belong to one or other of these classes, depending on the ultimate source of their revenues. It is possible to straddle the classes, as does the independent artisan who is both labourer and owner of stock, but it is not possible to belong to society except through assimilation into its class system, for it is only as a member of a social class that it is possible to acquire access to a revenue with which to secure the means of subsistence.

It is through this theory of class that Smith opened up the possibility of a systematic social science. Earlier students of society, most notably Gregory King, had entertained the idea of social classes, but had not established a rigorous foundation for their class distinctions. King, for example, identified twenty-six ranks of the population, differentiated on the basis of status, which could be classified in turn as belonging to the 'poorest sort', the 'middle sort', and the 'better sort', but the classification had no principled foundation. Political theorists, on the other hand, had approached society

more systematically, but had tended to rely on a much more abstract conception of society, attempting to reduce the heterogeneity of statuses and of forms of property in order to establish the common foundation of the polity in the abstract individual.

Smith made it possible to bridge the gap between the empirical and the theoretical approaches to society by making it possible to locate the political theorists' individual within a systematically organised society. He could do this because the systematic distinctions in society no longer depended on inherent differences in personal status, but rather on the material basis on which the individual participated in society, although he still recognised the existence of gradations of rank and status. Thus social differentiation was reconciled with the uniformity of human nature that had become the foundation of liberal political theory and continued to underlie the materialism of classical political economy. Moreover the new theory was able to justify and reconcile both social differentiation and the freedom and security of the individual. Social differentiation was justified on the basis of the differential contributions of land, labour and stock to the product and to the growth of the economy, while the freedom and security of the individual was justified by the need to give the individual the means and incentive to pursue his or her own ends in order to contribute to the betterment of society. Thus the theory of class, far from compromising the individualism of liberal theory, makes it possible to rest the latter on a much more concrete and practical foundation. Because it is possible to explore much more concretely and systematically the participation of the individual in society, it is possible to provide a defence of liberalism no longer solely on the basis of claims about human nature but more practically in terms of the material benefits to which a liberal regime will give rise.

In locating the individual socially and historically Smith opened the way to an empirical social science and his lead was soon followed in Scotland by Adam Ferguson and John Millar. However Smith's approach continued to harbour fundamental weaknesses that also marked the work of the other members of the Scottish Historical School. Despite its apparent concreteness Smith's theory still rests on the speculative definition of a 'natural' order of society against which real societies and real history are measured. Smith was not really concerned with how particular societies actually work, but was much more concerned with how the ideal society would work, in order that he could measure his own and other societies against that ideal. This focus explains Smith's failure, on the one hand, to offer any adequate account of the relationships between the fundamental classes of society and, on the other, his failure to reconcile his materialism with any adequate conception of history.

The failure to provide an adequate account of the relationships between the fundamental classes of society rests on the absence of any coherent theory of value, not in the narrow technical sense of a standard of price, but in the more fundamental sense of a theory that can account for the origins of the revenues of the different classes of society. Smith related wages, profits and rent to labour, stock and land, but he had no adequate theory of the relations between each of the terms. This weakness is not only of economic importance, for wages, profit and rent are not simply economic categories. More fundamentally they determine the interests of, and the relations between, the fundamental classes of society and, arising out of these interests and social relations, they determine the form of government and the moral sentiments appropriate to the society. They determine not only the pattern of economic development, but also the moral, political and intellectual development of society. The absence of a coherent theory of value means that Smith's entire social theory is ultimately based on anecdote and assertion.

This absence of a coherent theory of value is closely connected with Smith's lack of an adequate conception of history. Because he had no systematic theory of the formation of the revenues of the fundamental social classes, he had no account of this formation as a social process, appropriate to a particular form of society. Instead he referred these revenues back to a natural origin. Thus wages, although modified by accumulation, were referred back to the physiological subsistence requirements of the worker. Rent is determined by the natural productivity of land and profit is, at least implicitly, related to the productive powers inherent in the forces of nature, including the division of labour, set in motion by stock. Thus the formation of wages, rent and profit can be considered independently of the form of society since their 'natural' rates correspond to the natural properties of the universal categories of labour, land and stock. The system of *natural liberty*, which is supposed to be the most conducive to social progress, is that in which, within the framework of justice that protects the 'sacred and inviolable' rights of property, the natural order of society can assert itself for the benefit of mankind.

Since this order of society is so obviously both natural and ideal, any interference with this order can only be seen as unnatural, unreasonable and pernicious. Thus social institutions can have only one of two origins: either they correspond to the order of nature, or they are the results of misguided and misdirected human intervention. History is the study of the barriers to progress thrown up by the abuse of power motivated by pride, greed, vanity, prejudice and ignorance. This history has a certain rationale, in that the unsavoury characters who litter its pages were formed primarily by the circumstances of their material existence, but it is not related to the more

fundamental rationality of the natural advance of the division of labour, accumulation of stock and improvement in the productive powers of labour. Smith could not recognise that different modes of subsistence can give rise to different social relations; indeed he cannot recognise that the relations between the classes are *social* relations at all. He had, therefore, no conception of history as the history of social relations in a continuous process of change. History begins with 'the accumulation of stock and the appropriation of the land' and it ends with 'the system of natural liberty'. Between the two is merely the progressive advance of the division of labour, checked from time to time by the vices and ignorance to which man, in his imperfection, is heir. In this sense Smith never finally dissociated his social theory from natural philosophy.

The weaknesses of Smith's theory did not become immediately apparent. *The Wealth of Nations* was, after all, a political tract as much as a work of science, and it was one that so accorded with the spirit of the times that it was greeted largely uncritically by those favourable to Smith's point of view. Smith's work was not universally accepted, nor did it immediately supplant all other works of political economy. For example, David Hume offered a much more sophisticated theory of money and a correspondingly more powerful critique of mercantilism. However, it would be true to say that Smith's work immediately came to dominate political-economic thought and continued to do so for decades to come. Moreover Smith's work had an impact that went far beyond the policy-oriented debates of political economy, providing a framework that was taken up by social theorists and philosophers throughout Europe, as a point of reference if not a direct inspiration, to the extent that the specifically Smithian origins of the framework were soon lost to view.

The fundamental weakness at the heart of Smith's system only began to become apparent when his sanguine assumptions about the natural harmony of class interests came to be challenged politically, so reopening consideration of the basis of class relations. Smith's model was not one of unalloyed class harmony, but the tensions that he described were distinctly secondary and could be kept in check by the state. In attacking the mercantile system Smith was attacking an interest that had few defenders, for the mercantile corporations were in decline, their fate finally being sealed by the loss of the American colonies in the year of publication of *The Wealth of Nations*.

Ricardo's completion of the system

The question of the relation between the fundamental classes of society was reopened by consideration of the economic and social dislocation

precipitated by the Napoleonic Wars. The Wars had been a sharp increase in the price of grain, and so of agricultural rents, at the expense of wages and profits, and were followed by a serious recession. Although the War was not the only source of strain in a period of rapid capitalist expansion, the increased price of grain created real hardship for large sections of the population and, even if it was not the cause, could easily be made the scapegoat for successive waves of working class radicalism. Moreover, the price of grain, inflated by the Corn and Poor Laws and by the debasement of the coinage, on top of a heavy burden of taxation, could easily be blamed for the recession through its impact on profits. Thus widespread grievances surrounding the price of corn, monetary policy, the Corn Laws, the Poor Laws and the burden of taxation directed attention to the impact of economic policy on the level of wages and profits and so on the distribution of the product among the component classes of society.

Consideration of these questions of economic policy was not simply an economic concern. In France, failure to deal adequately with similar grievances had precipitated a revolution and radical agitation in Britain was sufficient to make the threat real at home. Thus the point at issue was that of the proper organisation of society, and particularly of the relations between the classes, and this had fundamental constitutional and political as well as economic significance. Thus questions were raised that Smith's system could not answer. It fell to David Ricardo to bring the classical system to completion.

Ricardo's starting point in his *Principles of Political Economy and Taxation* was to observe the inadequacy of the work of his predecessors 'respecting the natural course of rent, profit and wages', identifying the determination of the 'laws which regulate this distribution' as the 'principal problem in Political Economy' (Ricardo, *Principles of Political Economy and Taxation*, Penguin, Harmondsworth, 1971, p. 49). Although Ricardo also modified the Smithian theory of money and of foreign trade, his major contribution to political economy as a theory of society was in addressing this problem and he realised that the key to the solution of the problem lay in the theory of value. Ricardo took as his starting point the embodied labour theory of value, according to which the value of a commodity corresponded to the amount of time taken to produce it. The great advantage of such a theory for Ricardo's purpose was that the value of a commodity was given independently of the determination of wages, profit and rent. Wages, profit and rent could then be considered as proportionate shares of a fixed sum of value. Once any two of the revenues were determined, the third would be simply the remainder. For Ricardo it was profit that was residual in this way, so to determine profit he required only adequate theories of wages and of rent.

Ricardo adopted the theory of differential rent already developed by Anderson, West and Malthus. According to this theory rent was determined by the differential fertility of different pieces of land and not, as Smith had thought, by the absolute fertility of the soil. Thus the worst piece of land in use would pay no rent, while rent would arise on more fertile pieces of land in token of the extra profits that could be earned by the farmer because of the greater productivity of the soil. Thus, the greater the difference between the productivity of the best and worst land under cultivation, the greater would be the rent. Rent would be determined by the fact that succeeding pieces of land are progressively less fertile.

Wages were determined for Ricardo, as for Smith, by the supply of and demand for labour, gravitating around the 'natural price of labour' which corresponded to the cost of the necessary means of subsistence, a sum which depended, following Malthus, on the 'habits and customs of the people'. Ricardo went further than Smith, however, in offering an explanation for the fact that wages correspond to this subsistence minimum and the basic explanation was again owed to Malthus. According to the Malthusian doctrine, if wages rose above the subsistence minimum as a result of legislative or charitable intervention or as a result of an increased demand for labour there would be an increase in population as more affluent workers would marry earlier and have more children and more of these children would survive. This population increase would increase the supply of labour until the wage was forced back to the subsistence minimum. The only way in which the wage could remain above the minimum would be by the demand for labour running permanently ahead of its supply as a result of the rapid accumulation of capital.

This theory clearly only applies in the long run, since the labour supply will take some time to adapt to the change in wages. In the short run a different mechanism, that of the wages-fund, is operative. According to this doctrine the demand for labour was determined by the fund available to capitalists for the payment of wages. An increase in wages would reduce the demand for labour until the natural rate of wages has been restored. The implication of the two doctrines taken together is, of course, to reinforce Adam Smith's conclusion that the demand for labour, and so wages, can only increase as a result of increased capital accumulation. Wages cannot be increased by the Poor Law, by charity, or by trade unions. The reactionary implications of the theory at a time of considerable distress among the working class were clear and were especially attractive to politicians whose instinctive response to the problems so caused was repressive rather than reformist.

Having determined the level of wages, and armed with the theory of differential rent, Ricardo was in a position to determine the rate of profit.

Rent can be excluded from consideration by considering the situation of the capitalist on the marginal piece of land that bears no rent. The value of the commodity will be determined by the amount of labour embodied in the product of the marginal piece of land. On superior pieces of land less labour will be required to produce an equivalent quantity of product because the land is more productive. Thus the value of commodities is determined by the 'quantity of labour that will suffice for their production ... under the most unfavourable circumstances' (*Principles*, p. 37), and rent is determined by the difference between this value-determining quantity of labour and the lesser quantity actually bestowed on the product of the more fertile land.

Having excluded rent by focusing on the marginal piece of land, Ricardo identified the share of the product that accrues to labour, that share being determined by the 'natural price' of labour, and the residue accrues to the capitalist as profit. Thus for Ricardo, although rent and wages are determined independently, the fact that the total available for distribution is given meant that he could theorise the dependence of profit on rent and wages, and so the relation between classes, in a way that Smith could not. The function of the 'labour theory of value' in Ricardo's theory is to give conceptual precision to the idea that the national product available for distribution is a given magnitude, limited by the productivity and availability of labour, that is divided up amongst the classes of society. In particular it carries over to the determination of the component parts of the price of the individual commodity the idea that the size of the national product is independent of its distribution.

The independence of production from distribution that underlies Ricardo's theory of value does not carry over into a dynamic context, and Ricardo's main concern was not to study distributive shares for their own sake, but to consider the implications of changes in the pattern of distribution for the subsequent development of production, and the consequent implications of accumulation for the pattern of distribution. Within this dynamic context he was concerned above all with the implications of changes in the price of corn and of the incidence of taxation on the pattern of accumulation.

Ricardo's analysis of accumulation was centred on his account of the impact of accumulation on the rate of profit. As the economy developed and population grew it became increasingly necessary to bring less fertile land into production, so increasing rent and, through the rising cost of corn, wages. Thus the proportion due to capital would decline in the course of accumulation, in the absence of countervailing factors that could only slow the decline, while the capital required for a given level of production would rise with rising costs of production. Thus the rate of profit would decline continuously in the course of accumulation, and the prospect was one of rent

absorbing more and more of the net product until eventually the rate of profit fell so low that further investment would cease.

For Ricardo the ultimate barrier to progress was seen not as the monopoly privileges of the large capitalists that boosted profits, but as the declining natural fertility of succeeding portions of land. This natural barrier could not be circumvented, but it was exacerbated by two factors that could be modified. One was the effect of the Corn Laws, which prevented the importation of corn and so kept corn prices high and less fertile land in production. The other was the Poor Law that inflated the demand for corn and gave an unnatural stimulus to the growth of population, so undermining the positions of both capital and, by slowing accumulation, labour.

Conservatism, radicalism and socialism

Ricardo's theory of value gave classical political economy an analytical rigour and a cutting edge that Smith's formulation lacked. However Ricardo did not supplant Smith as the theorist of liberal capitalism. Ricardo's *Principles* is essentially an extended commentary on *The Wealth of Nations*, lacking the breadth of the latter work and concentrating on its technical deficiencies. This has led to the view of Ricardo as the man who reduced political economy to the status of 'the dismal science'. Thus Marx in his earliest writings condemned 'the cynical Ricardo' for whom 'economic laws blindly rule the world. For Ricardo men are nothing, the product everything' (Marx and Engels, *Collected Works*, Lawrence and Wishart, 1975, 3, pp. 192, 256).

This interpretation of Ricardo is misleading in being much too narrow. The importance of Ricardo's work for his contemporaries and for his classical successors was not primarily that it perfected the analysis of the economic machine, but that it provided an account of the proper regulation of the class relations of his society that was more appropriate to the post-Napoleonic political conflicts than that of Adam Smith. The adherents of classical political economy were not especially impressed by Ricardo's concern for rigour, they were much more impressed by the results that he achieved.

Ricardo modified Smith's analysis most particularly in the status he accorded to the landowner. For Smith the landowner's interest was identified with the general interest, while for Ricardo 'the interest of the landlord is always opposed to the interest of every other class in the community' (Ricardo, *Works and Correspondence*, CUP, Cambridge, 1951, vol. IV, p. 21). Such statements have led to another misleading interpretation of Ricardo that sees him as the radical theorist of the industrial bourgeoisie, arming itself for a decisive struggle with landed property. Such an interpretation considerably overemphasises Ricardo's radicalism and the distance that

separates him from other, and more conservative, political economists from Smith to Malthus and McCulloch.

Ricardo's attack on the landlords was confined to his attack on the Corn Laws and the Old Poor Law. He did not attack landed property as such, indeed he was himself a landed proprietor. For Ricardo rent was determined not by the existence of landed property, but by the differential fertility of the soil, while the barrier to accumulation was constituted not by landed property but by the niggardliness of nature. It was because rent was spent unproductively that it restrained accumulation, and in this Ricardo simply followed Smith, drawing Smith's conclusion that landed property should bear the brunt of taxation. This is also the basis on which Malthus attacked Ricardo, asserting that such unproductive expenditure is a virtue in averting the dangers of over-production. Thus Ricardo's attack on the privileges of landed property is not an essential aspect of his analysis, and is one that could be neutralised by Malthusian argument without necessarily dismantling the whole system (although Malthus himself also rejected the labour theory of value).

It is important to stress the extent of agreement amongst the political economists lest political economy itself be identified too closely with Ricardo. It is certainly true that in the debates in Britain it was Ricardo who triumphed, but the situation elsewhere in Europe was not as clear-cut, the vagueness and ambiguity of Smith, Say or Sismondi often being preferred to the harsh rigour of Ricardo. Nevertheless these thinkers shared a common framework of interpretation of society and a common approach to economic theory as the basis of a theory of class. While they may have differed in their assessment of the proper relation between rent and profit, and of the role of the state in regulating that relation, they were in complete and unshakeable agreement that capitalist class relations rest on a naturalistic foundation and they were in complete unanimity as to the proper role of the working class within society.

This fundamental basis of agreement explains how it was that Ricardo's theory, despite its occasional radical rhetoric, could also have a strong attraction for conservatives, and was originally appealed to by Tory governments to defend a regime of *laissez-faire*. On the other hand, it was fairly easy for others to emphasise the conflict of interests between landed property, on the one side, and capital and labour, on the other. All agreed that the working class should remain subordinate; the issue was to whom should it be subordinated. While Smith explicitly drew the constitutional conclusion from his analysis that the foundations of a sound constitution lay in the allied interests of the landed gentry and the emerging proletariat, the conclusion could be drawn from Ricardo's work that a sound constitution could only be based on the allied interests of agrarian and industrial capitalists and the

proletariat. Thus Ricardianism was turned into a radical weapon in the agitation leading up to the 1832 Reform Bill.

Ricardo's theory could be developed in an even more radical direction that Ricardo himself would never even have contemplated. Although Ricardo established an inverse relation between wages and profits he did not imagine for one moment that such a relation implied a conflict of interest between capital and labour. Wages were determined by the necessary means of subsistence, and could only rise above this level as a result of the rapid accumulation of capital on the basis of healthy profits. The Malthusian and wages-fund doctrines ensured that any unnatural increase of wages would inevitably prove self-defeating by stimulating population growth and retarding accumulation. Thus the inverse relation between wages and profit did not refer to an exploitative relation between worker and capitalist, but to the mechanism by which an increase in the price of corn, by raising money wages, eroded profits. However the labour theory of value could easily be turned from a convenient analytical device into a moral statement about the rights of labour, so turning Ricardo's theory from an apologia into a critique of capitalism. If the worker was entitled to the full fruits of his or her labour, Ricardo's theory clearly showed that profit represented a deduction from the worker's entitlement. While Ricardian radicalism bound the worker to the capitalist in opposition to the landlord, Ricardian socialism incited the worker to turn on the capitalist too.

The radicalisation of Ricardianism, and particularly the development of Ricardian socialism at the end of the 1820s precipitated a crisis in political economy that brought the weaknesses of Ricardianism to the fore. Although Ricardo's theory was technically far superior to Adam Smith's, the Ricardian theory of value, on which the potentially subversive deduction theory of profit rested, was technically deficient and could easily be abandoned by those who sought to evade the unacceptable conclusions that the socialists began to draw from the Ricardian system.

Ricardo was not particularly concerned to defend capitalism, for he simply took it for granted that competitive capitalism was the ideal form of society. However in abandoning the physiocratic foundations of Smith's theory, Ricardo also abandoned the justification of rent and profit. In Ricardo's system rent and profit no longer corresponded to any real contribution to production. Rent was a deduction from the profit of the farmer that accrued to the landlord as an expression of the declining fertility of the soil that was the greatest barrier to human progress: the landlord benefited from increasing human misery. Profit was a deduction from the product of labour, a simple residue. Insofar as Ricardo defended profit he referred to the reward for the capitalist who had foregone consumption for a period as the reward for waiting, but this defence is not very persuasive in the absence of any analysis

that relates the supposed sacrifice of the capitalist to the size of his profit: indeed the greater his sacrifice the faster the rate of profit falls. The idea that profit and rent are deductions from the product of labour could easily be transformed by the emerging socialists into a moral theory that saw profit and rent as unjust deductions made by parasitic landlords and capitalists.

Smith's moral justification of capitalism was based fundamentally on the progressive character of the capitalist system. This too was seriously compromised in Ricardo's account, for Ricardo showed that both land and capital are ultimately barriers to progress. Land acts as a constant drain on profit, directing funds from investment into unproductive expenditure and so slowing accumulation. Capital too acts as a barrier to progress, since investment will only be made in so far as it yields a profit and as profits inevitably fall, investment will be curtailed.

Ricardo's theory thus abandoned any foundation on which capitalism could be justified morally. For Ricardo there was no need to do so: Smith's struggles against the remnants of feudalism had been all but won, even the defence of landed property by writers such as Malthus now taking place within the framework of capitalism. The working class critique of capitalism in the name of a different, co-operative rather than competitive, form of society had not yet become a powerful independent force. Thus for Ricardo the existence of capital, landed property and wage labour was simply an inescapable fact of life, the natural foundation of any developed society. For Ricardo, as for Smith, the self-evident evils of other forms of society flowed 'from bad government, from the insecurity of property, and from a want of education in all ranks of the people'. It was 'essential ... to the cause of good government that the rights of property should be held sacred' (Ricardo, *Principles*, p. 120). But the socialist movement that began to emerge just as Ricardo was writing was beginning to question not simply the constitutional arrangements of contemporary society, but the sanctity of property and the naturalness of competitive capitalism, generating instead a vision of a society based on property held in common and on co-operation. Once the naturalness of capitalism and the sanctity of property were questioned, Ricardo's theory could be given a radical twist that sharply counterposed the interests of labour to those of both capital and landed property. Capitalism then came to be seen not as a natural, but as an historical form of society, a particular form of society that has not always existed and that is destined to be replaced. This was the direction in which Marx developed the initial insights of the 'Ricardian socialists'.

The technical weakness of Ricardo's theory of value, on which the whole edifice is based, becomes apparent as soon as it is realised that relative prices do not in fact correspond to the amount of labour embodied in different commodities. If the sum of profit earned by a capitalist were equal to the

number of labourers employed, multiplied by the unpaid labour of each, the rate of profit would depend on the number of labourers set to work by a particular capital, and the rate of profit on a capital that mobilised a large number of workers and little fixed capital would be higher than that on a capital that employed a large quantity of fixed capital, and so employed relatively few labourers. However, the mobility of capital, fostered by the credit system, means that the rate of profit on different capitals tends to be equalised as capitals flow from the less towards the more profitable outlets. Hence profit is related to the size of capital and not to the number of labourers employed.

Ricardo fully realised that the employment of fixed capital, and the varying turnover times of different capitals, modified his theory of value in this way but it did not trouble him because he was interested not in relative prices, but in problems of growth and distribution. Thus he sought to develop an 'invariable measure of value' that would enable him to consider problems of growth and distribution without having to worry about these divergencies due to differences in the proportions of fixed capital employed. The retention of the labour theory of value, however, demanded a more adequate resolution of the 'contradiction' at the heart of the Ricardian theory of value, while the 'contradiction' provided a strong lever for those who wished to reject the labour theory of value and the associated deduction theory of profit. It is in the latter direction that the marginalist school of economics eventually developed.

3

Alienated Labour and the Critique of Political Economy

Marx developed his own theory of capitalist society through a critique of the theories of classical political economy. However, Marx had a great deal of respect for the achievements of Smith and Ricardo and many features of Marx's work that are commonly identified as its central themes were already commonplace in political economy. Thus Adam Smith had a thoroughgoing 'materialist' conception of history in which class relations emerge out of the mode of subsistence, the development of these relations is conditioned by the development of the forces of production and the state is introduced to preserve the rights and property of the rich. Ferguson and Millar developed this account further and Marx's summary of the materialist conception of history in *The German Ideology* hardly goes beyond these accounts. Ricardo provided a more rigorous analytical foundation for this model and in so doing produced a theory that could easily be interpreted as a theory not of class harmony, but of class conflict, in which the development of the forces of production is held back by capital and landed property, just as in feudal society it had been restrained by the political power of landed and mercantile property. Thus Marx relied heavily on Smith and Ricardo in his condemnation of the capitalist system in his *Economic and Philosophical Manuscripts* and *The Poverty of Philosophy*.

Clearly what sets Marx apart from the political economists is not simply a 'materialist conception of history' nor a 'class conception of society', for naturalistic versions of these are already to be found in classical political economy. On the other hand, Marx's critique of political economy is not to be reduced to the simple task of reinterpreting the findings of classical political economy from a different class viewpoint, let alone to the narrow technical amendment of certain aspects of the theory of value. Marx's critique is in fact a total critique in the sense that it is at one and the same time methodological, theoretical and political, attacking the very foundations of classical political economy. Moreover it is not only a critique of political economy, it is at the same time a critique of capitalist society. In this chapter we must resolve this paradox of a critique which is both total, and yet retains so much from what is criticised.

The critique of Hegel's theory of the state

The first phase of Marx's critique of political economy was inaugurated by his Economic and Philosophical *Manuscripts* (which are partially anticipated in his 'Comments on James Mill'). However the foundations of this critique were laid in Marx's *Critique of Hegel's Philosophy of Right*.

Hegel's theory of the state starts from the observation that civil society is marked by egoism, by the particularity of individual interests. This raises an immediate problem, for civil society seems to lack any principle of cohesion, it is merely a collection of individuals all pursuing their own ends and none with any immediate interest in the fate of the whole. Within civil society individual existence alone is the goal, while social relations are simply a means. Among all the contending interests of civil society there is no body that can rise above particular interest and represent the general interest of society as a whole. Indeed any such body would be a contradiction in terms, for as a part of civil society it could express only a particular interest. The principle of cohesion of society, the expression of the universal interests of all members of society and of their social character, can, therefore, only be something external to society and that something is the state. The state stands above all particular interests as the embodiment of the universal.

It was this principle which guided Hegel's search for the ideal form of the state. The ideal form of the state is the one which most perfectly achieves the dissociation of the universal from the particular. The state will therefore be the embodiment of universality, divorced from the particular needs and interests expressed in civil society and so able to act as the disinterested regulator of the whole.

Hegel posed the problem in essentially logical terms, for the ideal form of the state is that form which is the most perfect embodiment of the logical category of universality. Thus Hegel tried to deduce the most perfect form of the state by the application of his dialectical logic. The state so discovered by the application of reason is then the rational, and so ideal, form of the state. It just so happens that the form of the state that Hegel deduced in this way was a modified version of the Prussian state. Universality is personalised in the hereditary monarch and formalised in the constitution. The universality of the state is then mediated with the particularity of civil society through the system of representation.

In his critique of Hegel, Marx used Feuerbach's device of the inversion of subject and predicate. Hegel's theory of the state inverts the true relationship between the subject and the predicate. Thus universality is imposed on civil society by the state instead of being imposed on the state by civil society. Human social qualities are taken away from the human beings who live in civil society as isolated individuals and are attributed to reason embodied in

the state. Thus the universality of the sovereign and of the constitution derive not from their really expressing the universality of human sociability, but from the logical category of the universal. Hegel took away their social nature from human beings and imposed it on them again as an attribute of the state. Human nature is then a realisation of the state, itself only the embodiment of logic, instead of the state being a realisation of human nature.

Hegel not only inverted the true relationship between the human individual and his or her social nature, between civil society and the state, between existence and reason, between the particular and the universal. In doing so he reduced the particular to the universal, existence to reason, and so made the state into a purely formal principle, the expression of the logical category of the universal and not of the real social needs of individual human beings. Thus the universality of the state is purely formal, entirely abstract, and has no relation to the real content of society, human social needs.

This inversion means that Hegel's argument is entirely spurious, for the particular cannot be deduced from the universal without specifying its particularity. 'An explanation which fails to provide the *differentia* is no explanation at all ... the real subjects ... are and remain uncomprehended because their specific nature has not been grasped.' For example Hegel could not logically deduce hereditary sovereignty from the principle of universality: what Hegel really did was to describe a particular state of affairs, on the one hand, and then assign logical attributes to this state of affairs, on the other. He thus idealised existing reality, in the double sense that he made reality the embodiment of the idea, and in so doing made the world as it actually exists into the only world that could rationally exist. 'Thus empirical reality is accepted as it is; it is even declared to be rational.' This is a travesty of reason, for 'the rational is seen to consist not in the realisation of the reason of the real person but in the realisation of the moments of the abstract concept.' Thus Hegel's theory of the state is an '*uncritical mysticism*' that does not understand the state as the expression of the social quality of human existence, but simply endorses the state as it exists. 'At every point Hegel's political spiritualism can be seen to degenerate into the crassest *materialism*' (*Early Writings*, Penguin, Harmondsworth, 1975, pp. 67, 63, 84–5, 149, 174).

Hegel's philosophical inversion, that reduces the state to an empty formal abstraction, was not for Marx merely an error of reasoning, for the state that Hegel describes really is only formally universal: the universality expressed by the constitutional state really is empty and abstract, for it does not emerge from the social needs of real human individuals. Thus:

Hegel should not be blamed for describing the essence of the modern state as it is, but for identifying what is with the *essence of the state*. That the

rational is real is *contradicted by the irrational reality* which at every point shows itself to be the opposite of what it asserts, and to assert the opposite of what it is. (*Early Writings*, p. 127)

Hegel's error is to see the constitutional state as rational. The focus of the contradiction, both in Hegel's theory of the state and in the constitutional state itself, is the system of representation. The system of representation gives the lie to the claim of the constitutional state to be the embodiment of universality.

The system of representation is the focus of the contradiction because it mediates between the state and civil society. The contradiction arises because the representatives can express only particular interests: the mere fact of representation cannot transform these particular interests into universal interests. Thus, if the state is to represent the universal as opposed to the particular interest, the representatives cannot appear as representatives of particular interests but only in their capacity as abstract individuals. Thus, insofar as the state is the expression of the universal interest, it can only be such by ignoring all particular interests, all real human needs. 'This point of view is ... abstract' and 'atomistic' because 'the *political state is an abstraction from civil society*'. Thus if the state is to be a true state, that is a true expression of the *social quality* that defines the human essence and not simply an abstraction that is opposed to real human beings, the separation of the state from civil society must be overcome (*Early Writings*, pp. 145, 78). The implication of Marx's analysis is that if human social qualities can be expressed only in the abstract and alien form of the constitutional state, this must be because they do not express themselves in civil society. It did not take Marx long to draw out this implication.

Private property and political economy

In looking at Hegel's theory of the state we seem to be a long way from political economy. Hegel's idea of civil society has more in common with Hobbes than with Smith, while Smith has a materialist theory of the state, which far from being the embodiment of the principle of universality has a mundane origin in the desire of the rich to protect their property. However, for Marx there was a very close convergence between Smith and Hegel that belies the apparent differences.

The similarities between Smith and Hegel lie both in the questions they asked and in the kind of answers that they gave. The fact that they looked in different directions for these answers should not conceal the similarity of their solutions. Both Smith and Hegel were concerned to discover the foundation of society in order to reform their own society so that it would

accord with the dictates of reason. Both observed that civil society is based on egoism, albeit moderated for Smith, so that the coherence and unity of society, its inherent harmony, is not immediately apparent. Thus for both Smith and Hegel the rationality of society could only be imposed on society from outside. While Hegel looked to the idea of universality to provide the principle of unity, Smith looked to nature. Thus while Hegel wanted to show the state as the realisation of the Idea, classical political economy strove to see the economy as the realisation of Nature. While Hegel established the rational necessity of the constitutional state, classical political economy established the natural necessity of the capitalist economy. Both Smith and Hegel thereby abolished society, Hegel absorbing it into an absolute Reason, Smith into an absolute Nature. Thus in each case society is abstracted from humanity and attributed to some external force.

It might seem that there is a world of difference between nature, which is after all something tangible, and Hegel's Idea. But this is not really the case, for Smith's 'nature' is not the tangible reality of nature, it is a pure abstraction, an abstraction in particular from the social relations within which human beings appropriate nature. Thus Smith's 'nature' is as far from the everyday world of nature as Hegel's Idea is from the everyday world of ideas; his 'materialism' is purely abstract. For Marx '*abstract materialism* is the *abstract spiritualism* of matter'. Thus Marx could apply the method developed in the critique of Hegel's abstract spiritualism to the critique of political economy. Like Hegel, political economy is content to describe the alienated forms of social existence, attributing their social character not to their human origins but to an alien power: on the one hand, the Idea, on the other, Nature. Smith's materialism is ultimately as idealistic as Hegel's philosophy.

The origin of this alienation is in both cases the same. Smith and Hegel looked for the key to society outside the individuals who comprise it because the immediate relations between those individuals appear as the antithesis of society. These relations are not truly human social relations because they are based on the opposition of private interests, beneath which lies not human nature but private property. Thus it is through the critique of private property that the alienation expressed by Hegel's idealism and by Smith's materialism can be traced back to its source. The critique of private property provides the key to the critique both of political economy and of Hegelian philosophy.

In turning to political economy Marx was not simply trying to solve a philosophical riddle. His critique of political economy flowed from the same political inspiration that led him to the critique of Hegel's theory of the state. However this political inspiration had acquired a new dimension. In the *Introduction to the Critique of Hegel's Philosophy of Right*, written after the *Critique* itself, Marx concluded that human liberation was not a

philosophical task, but could only be achieved when philosophy became a 'material force', when 'theoretical needs' correspond to 'practical needs'. The theoretical need identified in the critique of Hegel was for the universal interest to conquer all particular interests in civil society. The 'practical need' that corresponds to this is the need of a 'universal class', a class whose interest is opposed to all particular class interests, 'a class of civil society that is not a class of civil society, an estate which is the dissolution of all estates', and this class is the proletariat. Thus the proletariat, in liberating itself, liberates all humanity (*Collected Works*, 3, pp. 155, 182–3, 186).

This philosophical conclusion coincided with Marx's discovery of, and involvement in, the real movement of the working class and it was through this involvement that Marx came upon political economy. Within the working-class movement a critique of political economy was already emerging that showed some similarity to the form of critique that Marx had applied to Hegel. In France, Proudhon, in *What is Property?* (1840), had identified private property as the contradictory foundation of political economy. For Proudhon, political economy took private property for granted and tried to establish the rationality of a society based on private property. However at every stage political economy itself shows that private property undermines economic rationality by introducing inequality and monopoly. Thus private property undermines the equality of the wage bargain and, indeed, of all exchange relations. Proudhon argued that there is no moral or practical justification for this private property and concluded that a rational and just society could only be based on the abolition of private property and the establishment of equality.

The limitations of Proudhon's approach for Marx were that he isolated only one element of political economy for criticism, failing to recognise the connection between private property and the categories of wage-labour, exchange, value, price, money, etc. Therefore Proudhon wanted to abolish private property without abolishing the society which was based on it. The equalisation of property remains a form of property, a form, moreover, which is inconsistent with the continued existence of such phenomena as wage-labour and exchange. Thus, as Marx wrote in *The Holy Family* (1844), 'Proudhon makes a critical investigation — the first resolute, pitiless, and at the same time scientific investigation — of the foundation of political economy, *private property*', but it is still 'under the influence of the premises of the science it is fighting against'. Thus 'Proudhon's treatise ... is the criticism of *political economy* from the standpoint of political economy' (*Holy Family*, FLPH, Moscow, 1956, pp. 46, 45).

The work that first went beyond Proudhon in attempting to develop the critique of private property into a critique of political economy, and which had a dramatic impact on Marx's own thought, was Engels's *Outlines of a*

Critique of Political Economy (1843). Engels, following Proudhon, identified private property as the uncriticised premise of political economy. The development of political economy has revealed ever more clearly the consequences of private property, but 'it did not occur to economics to question the *validity of private property*'. Engels therefore sought to criticise this premise 'from a purely human, universal basis'.

Although Engels took up Proudhon's starting point, he developed a much more radical analysis than that of Proudhon, in trying to show not simply the evils to which private property gives rise *within* an economy based on exchange, but in trying to show how private property underlies the entire economic system. Thus Engels argued that 'the immediate consequence of private property is *trade*', which is immediately and necessarily antagonistic, based on 'diametrically opposed interests' and giving rise to 'mutual mistrust'. Thus although Smith preached the humanity of trade in the mutual benefits arising out of peaceful trade, the bases of trade remain egoism and distrust, and morality is subordinated to self-interest.

From trade emerges the category of *value*, which is determined under the rule of private property by the conflict between producers and consumers, competition being the only way of relating utility to costs. The economists' concept of value tries to conceal the dependence of the category on private property by isolating value from exchange, reducing it either to production costs or to subjective utility, whereas the concept has no meaning in abstraction from the relation between the two in exchange. In the same way the Ricardian theory of rent claims that rent derives from differences in the productivity of the soil, whereas it is in fact determined by 'the relation between the productivity of the land, the natural side ... and the human side, competition'.

The division between capital and labour likewise derives from private property, for capital is merely stored up labour, the two being reunited within production only to be divided with the appropriation of the product. Capital is further divided, again on the basis of private property, into capital and profit, and profit splits into interest and profit proper. Moreover the distribution of the product among these categories is not carried out according to some 'inherent standard; it is an entirely alien, and, with regard to them, fortuitous standard, that decides — competition, the cunning right of the stronger'.

Engels's conclusion was that all the categories of political economy presuppose competition and therefore exchange and private property. Private property splits 'production into two opposing sides - the natural and the human sides' as the land is appropriated by landowners. Human activity itself is divided between capital and labour, which confront one another antagonistically. Within these categories too, private property introduces

fragmentation, setting capitalist against capitalist and worker against worker. 'In this discord ... is consummated the immorality of mankind's condition hitherto; and this consummation is competition.' (*Collected Works*, 3, pp. 419, 421, 422, 429, 431, 432).

Engels finally returned to the standpoint of political economy, showing that the 'contradictions' of the competitive society arose out of competition, and so private property: the growth of monopoly, the disproportions between supply and demand, the coexistence of overwork and unemployment, the centralisation of property and the impoverishment of the worker are all the results of the system of competition based on private property. In abstracting from competition the different schools of political economy abstract from the private property on which the system is based, and conceal the roots of the contradictions inherent in the system. These contradictions are then either denied, or attributed to external natural forces, as in the 'law of population'.

Alienated labour and private property

Marx's *Economic and Philosophical Manuscripts* (1844) develop Engels's critique within the framework opened up by Marx in his critique of Hegel. Engels shows how the categories of political economy and the realities to which they correspond presuppose competition and so private property, but he does not establish the foundations of private property by showing how private property emerges out of human social existence. It is this critical task that Marx undertook.

In his *Comments on James Mill* (1844) Marx analysed much more closely than did Engels the relation of exchange. Whereas Engels saw the exchange relation as a conflict between two wills, and so a transparent relation that political economy distorted, Marx saw it as a *mediated* relationship in which the relationship is effected not directly, but through the medium of money.

In exchange an individual comes to assess all his or her capacities not in their own terms but in terms of money. In the same way the significance of others for the individual is assessed in money terms. Thus all human qualities are reduced to qualities of the thing, money, which detaches them from the individual and makes them into an objective power. As human qualities are reduced to things, so human relations are reduced to relations between things (*Collected Works*, 3, pp. 212, 213, 317–8).

In the system of exchange human needs are not related to one another directly, but the relation is mediated through the alienation of private property. Thus I do not orient my activity to the needs of another, thereby directly expressing my awareness of my social nature; instead my need is related to a thing that is the private property of the other, and the need of the other is related to my private property. Thus my social need for the other is

expressed in the form of my need for the thing that the other possesses. In the same way I relate my thing not to the needs of the other for me, but to the thing for which I can exchange it. In this way the essential social relationship between people, their mutual need for one another, appears in the alienated form of a relation between things and my social dependence on the other person appears in the alienated form of my dependence on things.

With the extension of exchange and the division of labour the activity of labour becomes an alienated activity, for the thing that the labourer produces has no inherent connection with the needs of the labourer: the labourer does not produce the particular object because it responds either to his or her need to engage in a particular form of activity, or to a need for that particular product, or to a recognition of the need of another for that product. The labourer produces simply in order to exchange the product for another product, in order to earn a living. Thus the product as an indifferent *thing* comes to dominate labour.

In the *Economic and Philosophical Manuscripts* Marx developed the theme introduced in his comments on Mill. The bulk of the first manuscript adopts 'the standpoint of the political economist' and does not advance significantly beyond Proudhon in pointing out, through extensive quotation from the political economists, the negative implications of the market society for the worker, whom political economy treats only as a 'commodity', 'it does not consider him when he is not working, as a human being' (*Collected Works*, 3, pp. 239, 241). Marx also noted the power of capital over labour; the fact that it is only competition that defends society against the capitalists while competition necessarily gives way to monopoly through the concentration of capital; and Marx took great pleasure in attacking Smith's (and Hegel's) identification of the interests of landed property with the general interest.

It is in the last section of the first manuscript that Marx turned from political economy to its critique, and the basis of the critique is the alienation of labour. Within a system of commodity production 'the worker becomes all the poorer the more wealth he produces ... Labour produces not only commodities: it produces itself and the worker as a *commodity*'. The reason for this is that the product of labour has become '*something alien ... a power independent of the producer*'. The more the worker produces, the greater the power that confronts him or her. This alienation of the product of labour is the expression of the alienated form of the activity of labour, something which political economy conceals because it does not look at 'the direct relationship between the worker (labour) and production'.

The activity of labour is alienated in the sense already discussed in the comments on Mill: 'It is ... not the satisfaction of a need; it is merely a *means* to satisfy needs external to it'. It is, therefore, '*forced labour ... not his own,*

but someone else's'. This is labour as '*self-estrangement*'. From this follows the 'estrangement of the *thing*', that is, from nature as the product and as the object of production. Since labour does not flow from the needs of the individual it seems to be imposed by nature, in the form both of the object on which the labourer works, and of the means of subsistence that impose the need to labour. Moreover labour as naturally imposed individual labour is estranged from the species, from participation in the conscious human transformation of the world of nature and from conscious collaboration with other human beings.

Although Marx offered a penetrating account of the dehumanisation of alienated labour, this was not his main aim. The importance of alienated labour for Marx was that it is the key to private property. The power of alienated labour cannot be a power inherent in the thing that is alienated. Ultimately 'only man himself can be this alien power over man'. Thus the power of alienated labour, its *alien* as opposed to its purely *objective* character, derives from the fact that it expresses a particular form of social relationship. 'Thus through estranged labour man ... creates the domination of the person who does not produce over production and over the product ... The relationship of the worker to labour creates the relation to it of the capitalist ... *Private property* is thus the product, the result, the necessary consequence, of *alienated labour*'.

Marx recognised that this argument may seem paradoxical:

True, it is as a result of the *movement of private property* that we have obtained the concept of *alienated labour* (of *alienated life*) in political economy. But analysis of this concept shows that though private property appears to be the reason, the cause of alienated labour, it is rather its consequence ... Later this relationship becomes reciprocal.

Thus property cannot create alienated labour. Before labour can be appropriated in the form of property it must first take the form of alienated labour. Thus the proprietorial relation between a person and a thing expresses a more fundamental social relation between people. The legal form of private property presupposes the social relation of alienated labour.

The conclusion that Marx immediately drew is fundamental, and it moves a long way from Proudhon. If alienated labour is the basis of property, the abolition of property can only take the form of the abolition of alienated labour. Thus

the emancipation of society from private property, etc., from servitude, is expressed in the *political* form of the *emancipation of the workers*; not that their emancipation alone is at stake, but because the emancipation of

the workers contains universal human emancipation. (*Collected Works*, 3, pp. 271–2, 273, 274–5, 278, 279, 279–80)

Thus the problem that arose out of the critique of Hegel's theory of the state finds its practical solution.

Having discovered the essence of private property in the alienation of labour Marx argued that every category of political economy is 'only a *particular* and *developed* expression of these first elements' (*Collected Works*, 3, p. 280). However, Marx did not actually attempt to do this, and all the signs are that, although he read widely in political economy in early 1844, he had not yet acquired a very thorough understanding of political economy. Thus the bulk of the rest of the manuscripts is made up of a critique of those forms of communism that have not been able to go beyond private property because they have not grasped its essence, and of a polemical discussion of the dehumanisation of alienated labour, the division of labour and money.

Marx did draw one conclusion, at the beginning of the third manuscript, that is of fundamental importance for the development of his critique of political economy. We have seen that Engels's critique of political economy stopped short of an analysis of private property and criticised political economy from the standpoint of the market. Thus for Engels an adequate political economy must be based on the market, where producers and consumers, objective costs of production and subjective utility, meet one another. What Engels offered is a synthesis of the competing schools of political economy, and not ultimately a critique at all. Marx, however, in finding the basis of private property in alienated labour concluded that labour must be the basis of political economy, and so he came down firmly on the side of Ricardo and his labour theory of value.

For Marx the great advance of Smith over mercantilism was to recognise property not as something external, money, but as a form of labour. However political economy *inverts* the true relationship between labour and property because it does not recognise that labour is inverted, in the form of alienated labour. Thus instead of seeing alienated labour as the human essence of property, it makes labour into the natural form of property: 'they make private property in its active form the subject, thus simultaneously turning man into the essence ... the contradiction of reality corresponds completely to the contradictory being which they accept as their principle' (*Collected Works*, 3, pp. 291–2).

Thus Marx rediscovered the inversion that he found in his critique of Hegel's philosophy of the state, and it is not surprising that the final section of the *Economic and Philosophical Manuscripts* returns to the critique of Hegel.

The critique of political economy developed in the *Economic and Philosophical Manuscripts* has a powerful moral dimension. Political economy offers a theory of capitalist society that rests on a resolutely naturalistic materialism for which the human being is reduced to an animal stripped of all human qualities, whose needs are reduced to the biological need for subsistence. It does not concern itself with human moral qualities, but it still ‘expresses moral laws *in its own way*’ (*Collected Works*, 3, p. 311). These are the moral laws of the society that it describes and political economy gives an accurate account of the reality of capitalist society. The critique of political economy, which shows that it is on the basis of the particular social form of alienated labour and not of an impoverished human nature, that this dehumanising society arises, is therefore at the same time a moral critique of capitalist society: within the reality of capitalist society true human needs remain which will and must express themselves in the overthrow of capitalism and its replacement by a society in which labour will be immediately social, in which the state, as the alienated form of sociability, will be abolished, and in which religion will be superfluous.

Hegel and the critique of political economy

The *Economic and Philosophical Manuscripts* owes much more to Marx’s engagement with Proudhon and Hegel than it does to any thorough exploration of political economy. Indeed the *Manuscripts*, along with Marx’s other works from the same period, betray a rather superficial understanding of the specific theories of political economy. However the critique of alienated labour developed in the *Manuscripts* remains at the heart of everything Marx wrote — there is no break in his work between the ‘philosophical’ works of his youth and the ‘economic’ works of his maturity, between the ‘abstract’ critique of 1844 and the ‘historical’ critique of 1867. To see how this can be, we need to look a little more closely at the affinity between Hegel’s philosophy and the doctrines of classical political economy.

For Marx, Hegel was not simply a philosopher. In Hegel’s work bourgeois reason finds its summation and its most systematic expression. Thus the critique of Hegel represented for Marx not simply the critique of a particular philosophy, but the critique of bourgeois reason in its most abstract and consistent form. Hence the critique of Hegel is bound to embrace the essence of the critique of political economy.

The specific connection between Hegel and political economy is to be found in the common idea that labour is the substance of property which in turn is based on the private appropriation of the products of labour. This is an idea that is fundamental to bourgeois social thought, emerging with the development of bourgeois production relations as an aspect of the

secularisation of bourgeois property. It is an idea that is developed first in political theory, classically in Locke's explanation of the origins and foundations of property. It is then taken up by classical political economy, which considers bourgeois social relations to be simply an aspect of the division of labour, participation in those social relations as labourer, landowner or capitalist depending on the form of property, labour, land or capital. The idea is given its most rigorous and abstract formulation in Hegel's *Phenomenology of Mind*.

For Hegel the private appropriation of the products of labour was the basis of property and therefore the basis on which social relations acquire an objective reality, embodied in things, beyond the immediacy of interpersonal relations. However Hegel's analysis does not make any distinction between the incorporation of labour in an object (the objectification of labour) and the appropriation of the object as private property (the alienation of labour). To become private property the object must be more than a mere object. It must be an object which is detached from its producer, which has acquired its independence, before it can be appropriated as property. Hegel's identification of objectified labour with alienated labour suppresses the real contradiction implied in the alienation of labour that underlies bourgeois property — the contradiction that explains how it is that the product of an individual's labour can be appropriated by another and turned into the means of subjection of the direct producer. Marx's analysis in the *Manuscripts* starts with this real contradiction as the basis on which to develop his concept of alienated labour.

Marx's critique of Hegel can be applied directly to classical political economy because the two theories of capitalist society rest on the same concept of property. Thus, as Marx noted in the *Manuscripts*, 'Hegel's standpoint is that of modern political economy' (*Collected Works*, 3, p. 333). Engels had already brought the two together in his critique of political economy, which betrays a strong Hegelian inspiration in showing the dependence of all the concepts of political economy on this fundamental presupposition of private property. However Engels could not get beyond a moral critique that condemned bourgeois property for its inhuman consequences. Although Marx's critique retained this strong moral thrust, it also went beyond it to establish the socio-historical foundations of bourgeois property and so to reveal the real possibility of its historical supercession. Thus Marx's critique of political economy is a moral critique, but it is much more than a moral critique. It is a philosophical critique, but it goes beyond philosophy in revealing the real foundation both of bourgeois social relations and of the mystifications of bourgeois ideology.

Hegel's identification of alienated with objectified labour conceals the real foundation of bourgeois social relations and so is the basis on which those

social relations are mystified. If private property derives from objectified labour, then it is the necessary consequence of the production of objects, it has a natural foundation and a universal existence. If private property derives from alienated labour, however, then it has a social foundation, in a particular social form of labour, and a purely historical, that is, transitory, existence. Where political economy naturalises bourgeois social relations by attributing them to the natural powers of objectified labour, Marx located them historically by attributing them to the social power of alienated labour. Behind alienated labour as a philosophical category lie particular social relations of production. Hence the philosophical critique immediately gives way to a socio-historical critique.

Even in the *Economic and Philosophical Manuscripts* it is clear that Marx was going beyond philosophy. The concept of 'alienated labour' is not simply a philosophical concept, nor is it seen primarily as a moral or psychological attitude to labour. Behind the abstract concept of 'alienated labour' is a real, concrete, specific historical form of labour. It is clear that for Marx property develops historically on the basis of the development of alienated labour. It is clear that Marx's moral condemnation of the alienation and dehumanisation of labour was not based on his own beliefs about human nature and human dignity, but on human needs expressed in everyday human existence. In an alienated form these needs are expressed in religion and in politics, but they are expressed directly in the community. In the past the community provided a very narrow and limited response to these needs. The community that is emerging within capitalist society out of the association of the proletariat will be a universal community which will satisfy human needs directly and so, at last, the alien forms of politics and religion will disappear along with the narrowness of community. Thus even in the *Manuscripts* 'alienated labour' is not primarily a philosophical, moral or psychological concept, it is an historical concept. There is no break between the *Manuscripts* and Marx's later work. The later work develops directly out of the counterposition in the *Manuscripts* of the real world to the abstractions of bourgeois social thought, a counterposition that is expressed in the argument that alienated labour is the specific socio-historical foundation of bourgeois social relations. In the development of his work Marx attempted to give this argument theoretical and historical substance.

The early formulation of the critique

Between 1844 and 1848 Marx developed the theoretical and political implications of his critique of political economy, giving that critique the social and historical content that it lacked in the *Manuscripts*. Political economy is based on the naturalisation of historically specific social relations

and so its concepts are formulated in abstraction from the specific historical characteristics of capitalist society. In this sense they are 'formal abstractions'. Thus political economy abstracts from the social fact of landownership, to present rent as a quality of the land. It abstracts from the social form of wage-labour to present wages as the recompense for labour. It abstracts from the social form of capital to present profit as a quality of the means of production. It abstracts from the social form of the market to present the market as an expression of human natural inclinations.

However this is an illegitimate form of abstraction, for it is only in a particular form of society that land generates a rent, means of production a profit and labour a wage. It is only in a particular form of society that the private labour of individuals is related through exchange. To treat these categories in abstraction from their social form is to deprive them of any content, to make them into purely formal categories that exist wherever there are land, labour, means of production or co-operation. Thus the categories of political economy are given an eternal status, and are even applied to societies within which neither wages, nor profits, nor rent, nor exchange, actually exist.

Behind these abstractions lies the fundamental abstraction of political economy, its unexamined postulate, private property. In this abstraction a particular form of property, capitalist property, is given a universal status. It is through this universal category that the recipients of revenues are related to their sources of revenue. Thus wages flow from labour to the *owner* of labour, profits from the means of production to the *owner* of the means of production, rent from the land to the *owner* of the land. Likewise private property is the presupposition of free exchange. History is then simply the history of the liberation of private property from the unnatural fetters imposed by political power and by religious and sentimental prejudice, fetters that prevent revenues from flowing to their appropriate recipients. Thus in feudal society the landowner uses his political power to secure not only his rent, but also the 'profits' and even a portion of the 'wages' of the serf.

The effect of the formal abstraction of political economy is to attribute social powers to things. Methodologically it produces an inversion of the subject and the predicate. Thus, instead of seeing the machine as a particular embodiment of capital, political economy sees capital as a particular manifestation of the machine. Instead of seeing labour as the physical substance of the commodity wage-labour, political economy sees wage-labour as a particular manifestation of labour. Instead of seeing the 'propensity to truck, barter and exchange' as a need imposed by exchange, political economy sees exchange as an expression of this 'natural' propensity.

This process of formal abstraction and of subject-predicate inversion cannot be reduced to a methodological error, for the inversion is something that really exists in capitalist society. The abstraction of political economy leaves out of account the social form within which things come to acquire a social power, and so it attributes this power to the things themselves; but in a capitalist society things really do manifest this social power. Thus workers really do find themselves slaves to their physiological needs and to the means of production; capitalists really do acquire profits in accordance with the productivity that they attribute to their means of production; landowners really do earn rents in accordance with the relative fertility of the soil; exchange of things really is the only way in which producers relate socially to one another. Thus political economy reproduces uncritically the alienated appearance of capitalist society within which social powers are expressed through things.

It is because political economy is uncritical of its presuppositions, most fundamental of which is private property, that its analysis mystifies the foundations of capitalist society. In denying the social character of its fundamental categories of wages, profits, rents, exchange and private property by explaining them in terms of natural categories, political economy makes these categories into eternal truths that can be distorted by unwise political intervention, but that can never be suppressed. In turning its fundamental categories into eternal truths which rest ultimately on a natural foundation, political economy makes the society to which these categories correspond itself an eternal truth. Thus for political economy capitalist society is the best of all possible societies, because it is in terms of the categories of capitalist society that political economy evaluates all forms of society.

Marx's critique of political economy reveals the social foundations of bourgeois property and so the historical content of the formal abstractions of political economy. Bourgeois property rests on the co-ordination of social production not through the self-conscious organisation of production on the basis of human need, but through the exchange of the products of private producers in the form of commodities. The commodity is thus a specific social form of the product of labour. Wage-labour and capital arise out of commodity production on an equally specific social foundation. Wage-labour is a particular form of labour that corresponds to the dispossession of the labourer that forces him or her to work for another in order to subsist. Its complement is the confrontation of the labourer with the means of production in the form of capital. Thus wage-labour and capital are the complementary aspects of a particular social relation of production, and it is only within this social relation that capitalist and wage-labourer relate to one another as independent commodity owners, it is only within this social

relation that they appropriate the product of labour in the form of wages and profit. The critique of political economy therefore reveals the character of the revolution that will overthrow capitalist society and identifies the agent of that overthrow. Capitalism will only be superseded by the overthrow of wage-labour and the proletariat will be the agent of that overthrow.

Despite the radicalism of Marx's critique of political economy, he nevertheless retained many of political economy's results in his writing of the 1840s. Marx criticised the naturalism and the formal abstraction of political economy, but when it came to the analysis of capitalist society he did not yet have anything to put in its place. Hence the critique of political economy was developed in the 1840s alongside a selective acceptance of many of its doctrines, at least for polemical purposes. Thus, for example, Marx combated the idealism of the German critical philosophers with the materialism of political economy. He combated the reformism of Proudhon with the political economists' proof of the futility of reform, though to establish the necessity of revolution rather than the inevitability of capitalism. He drew heavily on political economy to establish the contradictory character of capitalist development, with its polarisation of wealth and poverty, overwork and unemployment, boom and slump, overproduction and underconsumption. Thus Marx continued to identify the economic and moral irrationality of capitalism 'on the basis of political economy' throughout the 1840s.

Although Marx rejected the naturalistic foundation of classical political economy, he had nothing to put in its place. He could point out polemically that political economy rested on private property and on a particular social relation between wage-labour and capital, but he could not show rigorously or systematically that it was this social relation that gave capitalism its particular characteristics. To provide a rigorous alternative to classical political economy Marx had to show that the contradictions that marked the development of capitalism were not inherent in society as such, but were the consequences of the historically specific class relation on which capitalism was based. Marx had to lay bare the 'law of motion' of capitalist society as the form of development of the class relation between capital and labour, reformulating the classical laws of population, of currency, of the determination of revenues, of the falling rate of profit and so on in properly historical and not in naturalistic terms. Political economy based its theory of society on a naturalistic theory of the economy. In *Capital* Marx developed an alternative theory of society by developing a socio-historical theory of capitalist economic relations.

4

Value, Class and the Theory of Society

The critique of political economy and the theory of value

Marx's early critique of political economy was based on the concepts of alienated labour and of private property. For Marx capitalist private property represented not a legal institution, but a particular form of alienated labour in which the fruits of the labour of others were appropriated by private proprietors and in which the social organisation of labour was effected through the alienated form of the exchange of commodities. Political economy, in basing itself on a labour theory of value, describes the effects of alienated labour to the extent that it reduces all its concepts of value, wages, rent and profit to labour. However political economy does not realise that it is only in a particular kind of society that labour takes on these alienated forms, and so it identifies value, wages, rent and profit immediately with labour.

Labour is not in itself value nor is it in itself the source of wages, rent and profit. The relationship is therefore not an immediate one. It is a relationship that is mediated by the particular social relationships within which the expenditure of labour and appropriation of the products of labour take place in a particular society. In failing to examine the historical character of these social relations of production classical political economy is led to treat capitalism as the only possible form of society, and so to ignore the historically specific, and so transitory, character of capitalist social relations.

The key to the critique of political economy is the critique of the classical theory of value, because it is through the theory of value that labour is connected with its alienated forms. The classical theory had analysed the value relation in order to uncover labour as the substance of value, but it had not examined the social process through which labour appears in this alien form. Classical political economy was therefore based on an immediate identification of labour with value which abstracts from the particular form of social relations within which alone labour appears as value. In its economic theory this led classical political economy into an immediate identification of price with value and with labour-time, and this was the source of the theoretical contradictions it could never resolve.

The task of the critique of political economy is to go beyond the analytical moment of the classics in order to show how it is that in a particular kind of society labour appears in the alienated form of value. The foundation of the critique of political economy is, therefore, the investigation of the 'form of value' that the classics took for granted, for this is the fundamental social reality of the alienation of labour. On the basis of this investigation it becomes possible to locate the economic relations of the production, distribution and circulation of things in a capitalist society as the alienated forms of social relations between people.

The critique of political economy is not simply an external critique. It does not simply add an historical and sociological dimension that was neglected by the classical writers. The substance of the classical theory is transformed through the critique, for the processes through which the economic categories are determined are no longer natural processes: of subsistence need, of fertility of the soil, of demographic increase. The economic categories are determined socially and so the factors involved in their determination are quite different from the factors identified by the classical writers. In revealing the social determination of these categories the critique of political economy uncovers the social foundations of the laws of development of capitalism. In so doing the critique of political economy is able to resolve the contradictions that plagued classical political economy. It does this by showing that these contradictions within theory arise from the attempt to deny the existence of real 'contradictions' in capitalist society, that is from the attempt to show the process of capitalist development as a harmonious and co-ordinated process. Correspondingly, once it is recognised that economic laws are not natural but social laws it comes to be recognised that these laws do not determine the fate of humanity, but only the fate of a particular form of society.

Marx's critique of political economy, centred on the critique of the classical theory of value, is the core of Marx's theory of capitalist society. It is not primarily a critique of the adequacy of classical political economy as economic theory, although it does give rise to important economic conclusions (and Marx anticipated most of the valid criticisms of the classical school that came to be formulated by later economists: of the wages-fund doctrine, the Malthusian law of population, the neglect of the role of the market, the theory of money, Say's Law, etc.). Above all it is a critique of the classical conception of society that rested on the naturalism of the classical theory of value. In *Capital* Marx laid the foundations of a quite different approach to capitalist society. It is this approach that I hope to elucidate in this chapter.

The magnitude of value and the form of value

According to Marx, Ricardo's great contribution to political economy was that he discovered the key to the 'obscure structure of the bourgeois economic system' in 'the determination of *value by labour-time*' (*Theories of Surplus Value*, II, pp. 165–6). However, Ricardo's theory of value was formulated in abstraction from the social relations within which things come to acquire value as commodities. Thus the Ricardian theory of value is based on the formal abstraction of 'production' in which the expenditure of labour-time is considered independently of the social form of production, as a technical characteristic of the production process. The value of a commodity is determined by the quantity of labour required for its production, given the knowledge, techniques and implements available, irrespective of the form of society within which the thing is produced. The concept of value is therefore essentially a technological concept, determined prior to, and independently of, the social relations between the producers, in accordance with the productivity of labour.

Ricardo's naturalistic theory of value overlooked the fact that it is only in a particular kind of society that the products of labour take on the form of commodities and appear as values. It is not labour in general that appears in the form of value, but commodity-producing labour. Thus Ricardo correctly identified the substance of value, labour-time, but he ignored the fact that value is only determined as such within particular social relations. Ricardo 'does not examine the form — the peculiar characteristic of labour that creates exchange-value or manifests itself in exchange-values — the *nature* of this labour' (*Theories of Surplus Value*, II, p. 164).

The distinction between 'embodied labour' and 'socially necessary labour-time' appears at first sight to be a distinction of limited significance, of interest only to economists. However it is a fundamental difference because it expresses the distinction between the naturalistic conception of value as the labour embodied in the commodity as a thing and the socio-historical conception of value as the labour that is socially attributed to the thing as a commodity. The labour that is the source of value is not embodied labour as a universal substance. Value is labour for others; labour in so far as it is socially recognised within a division of labour; labour whose social character has been abstracted from the activity of the labourer to confront the labourer as the property of a thing; labour whose human qualities have been reduced to the single quality of duration; dehumanised, homogeneous, in short *alienated* labour. The social foundation of value is precisely the alienation of labour that Marx had analysed in 1844.

In 1844 Marx had shown that the hidden presupposition of classical political economy was the concept of private property and that the

foundation of private property was alienated labour. In the critique of the classical theory of value this argument is made more concrete. The social foundation of value is an extended division of labour within which social production is regulated through the exchange of commodities. The individual member of society does not produce directly for society according to some self-consciously regulated plan. Rather the individual produces privately, and the individual's contribution to social production takes the form of a product that is the individual's private property. However, this product is not destined for the producer's own use. It can only function as a use-value within the system of social production. Despite its private production and appropriation, therefore, it has been produced for the use of others and it is only as such that it can serve as a useful product.

As a thing the commodity is a useful object, product of the concrete useful labour of an individual producer. However the commodity cannot serve directly as a use-value. It can only become a use-value by being exchanged as a value. Hence, within a commodity-producing society the production of use-values, and so the satisfaction of human needs, is only achieved in the alienated form of the production of values. The exchange of commodities as values is correspondingly a specific social form of the regulation of the division of labour in society and the value of the commodity expresses the social relations between producers within that division of labour.

The mysteries of the commodity arise because the social relations within which commodities are determined as values are not immediately apparent. Although value is determined within a social relation of exchange, it is a matter of accident with whom any particular exchange is made. The individual producer is not concerned who buys the product, but is concerned only to realise its value. The individual appears to have a determinate relationship with the commodity as a value, but a purely accidental relationship with other producers. The value of the commodity then appears to be a property inherent in the commodity and independent of the social relations of production: the relations between people appear to arise because the commodity has a value, instead of the value of the commodity expressing those social relations. Hence the social powers of the commodity, that derive from the social relations of commodity production, appear to be inherent in the commodity as a thing. This is the origin of the 'fetishism of commodities'.

The fetishism of commodities is not only an illusion of everyday life. It is also the illusion on which the analyses of classical political economy are based. The failure of the classical political economists to investigate the social determination of value prevented them from penetrating the illusions of the fetishism of commodities and led them to the naturalisation of capitalist social relations:

Even its best representatives, Adam Smith and Ricardo, treat the form of value as something of indifference, something external to the nature of the commodity itself. The explanation for this is not simply that their attention is entirely absorbed by the analysis of the magnitude of value. It lies deeper. The value-form of the product of labour is the most abstract, but also the most universal form of the bourgeois mode of production; by that fact it stamps the bourgeois mode of production as a particular kind of social production of a historical and transitory character. If then we make the mistake of treating it as the eternal natural form of social production, we necessarily overlook the specificity of the value-form, and consequently of the commodity-form together with its further developments, the money form, the capital form etc. (Marx, *Capital*, I, p. 174)

The theory of value and the theory of society

The critique of commodity fetishism, already anticipated in the early analysis of alienated labour, is at the heart of Marx's critique of political economy. However its implications are much wider than may appear at first sight, for it is not primarily a critique of the adequacy of political economy as an economic theory, nor is it simply a critique that complements political economy in drawing attention to the social and historical context within which economic activity takes place. It is essentially a critique of the liberal conception of society on which classical political economy is based.

Classical political economy develops a theory of society on the basis of the formal abstractions of the individual, of production and of exchange. The starting point of political economy is the abstract individual, unconstrained by imposed obligations, who is capable of making and of acting on his or her own rational judgements. This individual is inserted in relations of production and exchange that are abstracted from any social and historical context. Thus production is reduced to the technical process of the production of things, while exchange is treated as a purely formal mechanism through which those things are exchanged for one another. Exchange is therefore essentially a technical instrument that imposes no social constraints and so has no substantive social significance, an expression of the reason that is the defining characteristic of human nature. Thus the social relations of capitalist production are naturalised, and presented as the free expression of human rationality in the face of the objective constraints imposed by an external nature. Moreover these social relations also express the moral ideal, since they leave the individual to be the judge of his or her own interest while providing the means by which such interests can be optimally reconciled.

Classical political economy is not simply a theory of capitalist economic relations. The realisation of human rationality through capitalist relations of production, distribution and exchange presupposes the freedom and security of property, on the one hand, and the freedom of the individual from external moral and political constraint, on the other. It therefore defines the constitutional, legal and political circumstances within which rational judgements of self-interest can be made and acted on, and derives moral imperatives from the rational self-interest of the abstract individual that can serve as the basis of education, enlightenment and legal regulation. Thus classical political economy offers a complete liberal theory of the ideal society that can reconcile the necessity of legal, political and moral constraint with the freedom of the individual by establishing that such constraint corresponds to the rational self-interest of the enlightened individual. Classical political economy develops a complete model of capitalist society as the expression of human reason. It describes 'a very Eden of the innate rights of man. It is the exclusive realm of Freedom, Equality, Property and Bentham' (*Capital*, I, p. 280).

The coherence of this liberal model of society rests on the coherence of its starting point, the presupposition that capitalist social relations can be analysed as relations between abstract 'private' individuals. It is this presupposition that is undermined by the analysis of the 'fetishism of commodities' and by the subsequent development of the analysis in *Capital*. Its coherence becomes apparent as soon as we examine the individual act of exchange.

We have seen that Marx and Engels in their earliest economic writings had already uncovered the hidden presupposition of the liberal model in the social institution of private property. Of course the classical economists and political theorists were well aware that this model of society was built upon the presupposition of the freedom and security of private property: the major purpose of the model was to demonstrate the socially beneficial consequences of such freedom and to establish the constitutional conditions within which the freedom and security of private property could best be secured. However the classical theorists saw property as a pre-social institution, a relation between a person and a thing, defended by reference either to natural law or to the utilitarian benefits of property, backed in either case by divine sanction. They did not see private property as a form of social relation, in which the relation of the owner to the thing owned is subordinate to the social relations between property-owners.

In abstraction from the system of social production the product in which the producer has embodied his or her labour is indeed the producer's private property. However this relation of private property is necessarily a social relation, a relation of *privatisation* of a portion of the social product, not a

relation constructed in private. As a thing the product is appropriated by its producer. However this relation of appropriation is not a private relation, for the thing has not been produced with a view to its appropriation by its producer, but with a view to exchange. The individual produces the thing as a commodity, on the presupposition that others will also produce commodities and that the respective products will be exchangeable as commodities. The individual act of (private) production is only undertaken on the assumption that the individual will find available in the market the things necessary to satisfy his or her subsistence needs and to sustain a renewed round of commodity production. The individual act of production and appropriation therefore presupposes a social division of labour expressed in the total process of production and exchange of commodities. It is only in relation to this system of social production that the individual act of production and appropriation has any significance, and it is only on that basis that the product takes the form of private property. The presupposition of private property is therefore the social relation of commodity production.

Private property not only presupposes these social relations, it is itself a form of the social relations of commodity production. Liberal social theory, and classical political economy, fail to see this because they fail to examine the form of value, the social relations through which the product of the individual takes its place in the social division of labour and so fail to distinguish the commodity as a thing, from the commodity as a social relation. Although the commodity that is appropriated as private property is a thing, it is not as a thing that it is appropriated as private property, but as a value. The commodity has not been produced to satisfy directly the needs of the producer, and it is worth nothing to the producer as a use-value. It has been produced as a commodity, to be exchanged as a value, and it is only to the extent that it can be exchanged and achieve social recognition as a value that it is worth appropriating as private property. In the event of overproduction, or of inefficient production, the commodity will be devalued, perhaps even to the extent that it becomes worthless and is discarded. The property relation is not, therefore, a relation between a private individual and a thing, but a relation between an individual and a sum of value embodied in a thing.

The relation of private property is the fetishised form taken by the relation between the individual and other producers within the social division of labour. The relation of exchange, within which the commodity is realised as private property, is the relation within which the social character of private labour is realised as a moment of the social division of labour. However, if the commodity is viewed as a thing, if its social character is considered to be inherent in it as a thing, the social relations between the producers appear as relations between things. Thus the demystification of the fetishism of co

modities is at the same time the demystification of the relation of private property that is at the foundation of liberal social theory. If the abstract individual proprietor is necessarily a social being, with the social relations of production already presupposed in the property relation, the implication is that the theory of society must take as its starting point not the abstract individual, but the historically given social relations of production: 'Individuals producing in society - hence socially determined individuals — is, of course, the point of departure'. (*Grundrisse*, Harmondsworth, Penguin, 1973, p. 83)

Once it is recognised that the property relation is a social relation it also becomes clear that different forms of property express different forms of social relation. These differences are suppressed in the abstract consideration of the individual member of a capitalist society as a property-owner. In an undifferentiated society of petty commodity producers the property relation expresses the social relations of petty commodity production. However on the basis of petty commodity production new forms of property, and new social relations, emerge. The exchange of commodities gives rise to money as a special commodity and the emergence of money to the formation of capital and of labour-power. The analysis of capitalist society cannot therefore stop with the analysis of the commodity-form in the abstract. It must proceed to the investigation of the different social relations that are expressed through the different forms of the commodity. However the analysis of the commodity-form remains the key, and it is the classical failure to understand the commodity-form that also explains the classical failure to understand the more developed forms of money and of capital.

Money as a social relation

Classical political economy failed to penetrate the fetishism of commodities and so it was unable to identify the specific character of exchange as a form of the social relation of commodity production. This in turn underlies the failure of classical political economy to understand money as a form of social relation.

For classical political economy the exchange relation was essentially symmetrical. The two parties to an exchange each had commodities that were wanted by the other. Each could therefore satisfy his or her needs by exchanging commodities, and the rate at which they exchanged was determined by the amount of labour-time each had spent on acquiring the given commodities. Here a double exchange took place: on the one hand, one kind of use-value was exchanged for another, and this was the *form* of exchange; on the other hand, one private labour was exchanged for another, and this was the quantitative determination, the *content*, of exchange.

Classical political economy was based on this picture of exchange as an essentially *private* relation of barter between *individuals*. The developed system of exchange found in a capitalist society is simply a generalisation of this elementary private barter, into which money has been introduced as a technical instrument to facilitate the coordination of needs.

For Marx this model of exchange was nonsense. Where isolated individuals made occasional exchanges, as in the parable of classical political economy, there was no reason why exchange ratios should correspond to the quantity of labour embodied in the particular commodities, for it was only within a competitive system of exchange that there was a tendency for exchange ratios to achieve such a quantitative determinacy. But within any system of exchange the

private interest is itself already a socially determined interest, which can be achieved only within the conditions laid down by society and with the means provided by society; hence it is bound to the reproduction of these conditions and means. It is the interest of private persons; but its *content* as well as the *form* and means of its realisation, is given by social conditions independently of all. (*Grundrisse*, p. 156, my emphasis)

In any developed system of exchange the exchange relation does not comprise two separate exchanges, of use-values, on the one hand, and of labour-time (values), on the other. Rather there is a single but asymmetrical exchange. If I bring a commodity to market I am not concerned with the use-value of the commodity, but only with its value: for me the commodity is a means of acquiring other commodities. On the other hand, in making an exchange I seek to trade my commodity, which has no use for me, for another commodity which I can use. The other commodity therefore exists for me as a potential use-value. Thus in the process of exchange I seek to realise my commodity as a value in order to acquire another commodity which can serve as a use-value for me. The whole point of the system of exchange is that it does not, as in the classical parable, co-ordinate needs with one another through the direct exchange of use-values. Needs are related in an alienated form, only through the mediation of value. Thus even within the direct exchange of commodities there is a fundamental asymmetry that already contains the possibility that exchange will not prove as harmonious as the classical parable would lead us to believe.

As soon as we move away from the classical parable and consider exchange as a social process it becomes clear that the process of exchange, even in its simplest form, cannot be reduced to the isolated exchange of one commodity for another. When I take a commodity to market I take the product of a certain quantity of concrete labour which I want to exchange. I

hope that in exchanging my commodity I will be compensated for the amount of labour that I have actually expended. In other words I seek to represent my commodity as the embodiment of abstract, socially necessary labour-time and not simply as the product of my particular concrete labour. This is the key to the understanding of money.

In seeking to make an exchange in which another commodity will serve as equivalent for my commodity, I will not consider the amount of concrete labour actually embodied in that commodity, I will consider that commodity as an embodiment of abstract labour, of socially necessary labour-time. I will not be swayed by the observation that the producer of the other commodity has in fact taken much longer than the time socially necessary, for on entering the market the equivalent is detached from its concrete conditions of production.

Examination of exchange as a social relation makes it clear that the commodity which acts as the equivalent for my commodity does not appear as a particular commodity in the exchange relation, but represents the social world of commodities in which my commodity has to play its part. Thus the equivalent commodity appears in the exchange relation as the embodiment of abstract labour, and my commodity seeks to represent its value in the bodily form of the equivalent. It is only within the exchange relation, within which the other commodity acts as equivalent, that the latter has this social power. Outside that relation, and its role of equivalent, it is simply a particular commodity like any other. The conclusion of this analysis of the equivalent form is that any commodity can act as equivalent, and that money is indeed simply a commodity like any other. However the properties that are attributed to money as the universal equivalent, the embodiment of human labour in the abstract, are not inherent in money as a commodity. They are properties that derive from money's role as equivalent, as properties of the equivalent form.

If we consider money in isolation from the form of exchange we fall into the errors of the political economists. On the one hand, the mercantilists thought that gold embodied value in itself. For them, therefore, the exchange-value of a commodity was determined solely in the market by the relation established between the particular commodity and money as the substance of value: the value of a commodity was the amount of money for which it could be exchanged. On the other hand, classical political economy ridiculed the monetarist superstition, noted that gold was a commodity like any other, and so argued that exchange-value is simply the ratio of the values of two particular commodities, one of which happens, for convenience, to be gold. For monetarism and mercantilism the exchange-value of a commodity was the accidental relationship established in the market. or the classical

school value was immanent in the commodity, the market was simply the arena in which value expressed itself.

Marx insisted that neither of these conceptions of exchange, and so of money, was adequate. Classical political economy was right to note that the money commodity was a particular commodity like any other. But the monetarists were right to note that money appeared in exchange not as a particular commodity, but as a universal, as the embodiment of value. The paradox is resolved when it is realised that money acquires its powers not through its own properties, but because of its social role in the system of exchange. It is only in its function as universal equivalent that money comes to acquire its power as embodiment of value. This power can consequently only be a social power, the relationship of the commodity to money can only express a social relation, and the development of money is the result of the development of the social relations of commodity production.

The social relation that is expressed in the form of money is the relation between the labour of the individual and the labour of society. It is by submitting the commodity to the test of the market that private labour is submitted to the test of its social usefulness and of its social necessity and that it seeks validation as abstract, social labour. In this relationship there is no guarantee that the individual labour will be validated in this way, so there is no guarantee either that the labour-time socially necessary will correspond to that actually expended or that the labour will prove socially useful in responding to social need as expressed in the market. It is only through the regular divergence of prices from values and of values from the labour times embodied in particular commodities that the social regulation of production in a commodity-producing society is achieved. The divergence between price and value, which classical political economy treated as accidental and insignificant, is therefore a necessary characteristic of the alienated character of commodity production.

The formal abstractions of political economy, that lead it to treat money simply as a technical instrument, eliminate from view the contradictory foundation of a commodity-producing society that is the source of the crises that punctuate capitalist development. For political economy, which treats production in abstraction from its social form, the only barriers to the indefinite expansion of production are natural barriers, specifically the barrier established by the Malthusian relationship between the natural growth of population and the fertility of the soil. On the other hand exchange, which is reduced to a purely formal transaction, is considered to be wholly unproblematic. Classical political economy could only conclude that crises are accidental and irrational phenomena, expressing the imperfect operation of the system of exchange, rather than expressing the normal operation of an alienated and irrational form of social production.

It is only when exchange is considered as a particular moment of the social relations of production and specifically as the capitalist exchange of commodities, that the exchange of the commodity for money becomes problematic and crises come to be seen as an inherent aspect of the regulation of social production. The exchange of commodities is *no longer* simply the exchange of things between individuals seeking to satisfy their needs; it now involves, on the one hand, capitalists who are seeking to produce and reproduce capital and surplus-value, and, on the other, workers who are seeking to reproduce themselves by selling their labour-power as a commodity in order to be able to purchase the means of subsistence from capitalists. A crisis in exchange is, therefore, not simply a superficial disturbance in the relations between the producers and the consumers of things. It is an interruption in the reproduction of the social relations of capitalist society. It arises because of the contradictory foundation on which that society is built—that things will only be produced and exchanged to the extent that they can play their part in the production of surplus-value and the reproduction of capitalist social relations. It is ultimately the neglect of the commodity-form that prevents classical political economy from uncovering the contradictions inherent in the value-form that come to a head in crises:

If Ricardo thinks that the *commodity* form makes no difference to the product, and furthermore, that commodity circulation differs only formally from barter, that in this context exchange value is only a fleeting form of the exchange of things, and that money is therefore merely a formal means of circulation — then this in fact is in line with his presupposition that the bourgeois mode of production is the absolute mode of production, hence it is a mode of production without any definite specific characteristics, its distinctive traits are purely formal. He cannot therefore admit that the bourgeois mode of production contains within itself a barrier to the free development of the productive forces, a barrier which comes to the surface in crises. (*Theories of Surplus Value*, II, pp. 527–8; c.f. III, pp. 54–5.)

Capital as a social relation

In analysing the form of value Marx abstracted from the specifically capitalist form of production, although it is only under capitalism that commodity production is generalised. In the analysis of value Marx therefore made no reference to class relations nor to the distribution of the value produced among the social classes. This abstraction is legitimate because capitalism is a form of commodity production, on the one hand, and because recognition of the capitalist form of production does not *immediately* affect

the analysis of the commodity and the form of value, on the other. However we now have to ask how the social form of capitalist production expresses itself in distinctively Capitalist relations of production and exchange.

Marx introduced consideration of capital by examining capital in its most abstract form, its 'first form of appearance', as 'money capital' (*Capital*, I, p. 247). Money is not in itself capital, but only becomes capital when it acquires the power of 'self-expansion'. When money functions as the means of circulation of commodities it has no such powers of self-expansion, nor does it if it is accumulated in an idle hoard. A sum of money can only be increased by throwing it into circulation, by buying some commodities, and then withdrawing it again by selling commodities. Money therefore only became capital through this process in which it expanded in the course of its circulation. 'Value therefore now becomes value in process, money in process, and, as such, capital'. (*Capital*, I, p. 256)

In this process a sum of value in the form of money would be expended in the buying of commodities, and commodities would be later sold in order to realise a greater sum of value in the form of money. Thus a certain sum of value through this process begot a 'surplus-value'. The term 'capital' refers to this process in which a sum of value apparently acquires the power of expanding itself. Money and commodities are not in themselves capital, they are simply forms taken on by capital in the process of self-expansion. It is not the value of money nor of the commodities that increases in the process, otherwise there would be no need for capital to go through these changes of form to expand itself. To believe otherwise is to identify capital with one of its forms, to see capital 'as a thing, not as a relation' (*Grundrisse*, p. 258) and so to succumb to the fetishism of commodities.

Money and commodities only become capital when they participate in the process in which value expands itself. To understand capital we therefore have to understand this process of self-expansion of value. How does a sum of value, a quantity of abstract labour, manage to assimilate to itself more value in the course of its circulation? This is only possible if at some point in its circulation capital is able to appropriate labour without payment. The problem is where this occurs.

This appropriation cannot take place within exchange, at least as so far considered, because exchange does not *create* value, it merely changes its form. In the analysis of exchange it was assumed that commodities exchanged according to their values, the sale of a commodity representing a change in the form but not of the magnitude of value. It is certainly the case that unequal exchanges could take place, but such exchanges could not yield a *surplus* value, they could only redistribute a portion of an existing sum of value as gains and losses balanced out. The early forms of merchants' and usurers' capital were based on such a redistribution of value.

New value can be added only in production by the expenditure of labour. Thus the source of surplus-value can only be a difference between the amount paid for the labour and the labour actively expended. However this in turn seems impossible to explain, for it implies that labour is a commodity paid below its value, which raises the question of what is special about labour that prevents it from being paid at its value.

Marx solved this problem by examining carefully the *social form* of capitalist production, concluding that the commodity purchased by the capitalist was not labour, but labour-power. When the capitalist employed the worker there was not a symmetrical relation of production in which the worker sold his or her labour and the capitalist his 'capital' to the enterprise and each then shared in the product according to the contributions of labour and 'capital'. What actually happened was that the worker sold to the capitalist his or her ability to work ('labour-power') for a certain length of time. The capitalist used his capital to buy this labour-power and the requisite means of production which he then set to work to produce commodities. In selling his or her 'labour-power' the worker had given up all rights to the product, so the entire product was appropriated by the capitalist. Thus the capitalist form of the labour process

exhibits two characteristic phenomena. Firstly, the worker works under the control of the capitalist to whom his labour belongs... Secondly, the product is the property of the capitalist and not that of the worker, its immediate producer. (*Capital*, I, pp. 291–2)

These characteristics derived from the fact that production was premised on the purchase and sale of labour-power.

The difference between the labour-power that the worker sells and the labour that the worker actually performs is the key to the understanding of surplus-value. As a commodity labour-power has a unique characteristic in that the 'consumption' of labour-power is itself the expenditure of labour and so the production of value. Thus labour-power is paid for as a commodity at its value, like any other commodity, but having been purchased the labour-power can be set to work to produce value in excess of its own value. The value of labour-power bears no relation to the value produced by the activation of that labour-power since it is determined quite independently of the latter. The capitalist has to purchase labour-power before he can set it to work, and what he has to pay for the labour-power is quite independent of his ability to employ that labour-power in the creation of value.

The concept of labour-power makes it possible to reconcile the existence of profit with the equality of exchange. For Ricardo wages correspond to the value of labour, so that labour has not one but two values -the value it has in

exchange and the value it contributes to the product. Thus its exchange-value does not correspond to its value. This led the Ricardian socialists to conclude that labour is paid beneath its value and that this is the source of profit. The implication is that the source of exploitation is the inequality of exchange between labour and capital and that exploitation can therefore be abolished by equalising that exchange. By introducing the distinction between labour and labour-power Marx resolves this contradiction and shows that exploitation is consistent with equality of exchange, so that the abolition of exploitation depends on the abolition of the wage-relation and not simply on its equalisation.

The social foundation of labour-power as a commodity is the separation of the labourer from the means of production and subsistence that compels the labourer to sell his or her labour-power as a commodity in order to participate in social production and so gain access to the means of subsistence. It is this separation that is consequently the social foundation of surplus-value and so of capital. Capital, like the commodity, is not a self-sufficient thing with inherent social powers, but a social relation that appears in the form of relations between things. The social relation that is concealed behind capital is, however, a new social relation, not the relationship between private producers concealed behind the commodity, but a relation between social classes. This *class* relation is the logical and historical presupposition of capitalist production, the social condition for the existence of individual capitalists and workers, and the basis on which the labour of one section of society is appropriated without equivalent by another. The foundation of this relation is the separation of the mass of the population from the means of production and subsistence.

The capitalist labour-process

Once the concept of capital is introduced our understanding of production and exchange is further developed. Production is no longer under the control of the direct producer. The social presupposition of capitalist production is the separation of the direct producer from the means of production, so that the direct producer can only work under the direction of another, the capitalist. For the capitalist the aim of production is not the production of use-values, but the production of value and of surplus-value. The capitalist production of use-values is only incidental to the capitalist production of surplus-value. The capitalist labour-process is no longer a process in which workers produce use-values by setting the means of production to work. It becomes the process in which capital sets labour to work to produce value: 'It is no longer the worker who employs the means of production, but the means of production which employ the worker' (*Capital*, I, p. 425). This

domination of the worker by the thing in the labour-process, which first acquires a technical and palpable reality' with the coming of machinery, should not be seen as a feature of the labour-process as a technical process. The thing in this, as in other cases, can only acquire its social power within particular social relations. The power of the machine over the worker in the labour-process is therefore only a form of the power of capital. The power of capital is in turn the power of alienated labour, of labour appropriated by the capitalist in the form of surplus-value and turned, as capital, into the means of appropriating more labour. 'Hence the rule of the capitalist over the worker is the rule of things over man, of dead labour over living, of the product over the producer'. (*Capital*, I, p. 990)

It is only within the capitalist labour-process that the direct producer loses control of the process of production and so the process is completely subordinated to the production of value. For the independent commodity producer the labour-process can still be endowed with some human qualities. In the capitalist labour-process the only criterion is labour-time and the attempt to reduce the labour time spent to a minimum. It is this unqualified subjection of production to the production of value and of surplus-value that characterises the capitalist labour process. Production is therefore not in any way the technical arena of co-operation in the production of use-values presented by classical political economy; it is a constant arena of struggle over the length of the working day, over the intensity of labour, over the degradation and dehumanisation of labour through which the worker seeks to resist his or her complete subordination to capital.

The tendency for capitalist competition to impose on every capitalist the need to reduce labour-time to a minimum gives rise to the two fundamental features of capitalist development: on the one hand, the tendency to increase the productivity of labour to an extent never before seen; on the other hand, the tendency to increase productivity not for the benefit of, but at the expense of, the mass of the population. Thus the increased productivity of labour is not expressed in a growing abundance of goods for the mass of the population, nor in a reduction in the burden of work. Instead it is expressed in a growing accumulation of capital at one pole of society and growing poverty (relative if not absolute) at the other. It is expressed in an increased burden of work for those with jobs, alongside a growing 'reserve army of labour' who have been made redundant and are condemned to idleness. The depreciation of machinery in the course of accumulation is matched by the throwing of workers onto the scrap heap. The more rapid is 'progress' the more rapidly is work dehumanised and workers degraded, exploited and cast aside.

Capitalism makes possible unprecedented increases in the productive powers of labour. These increases are associated with an increasing scale of

production, the application of machinery and the application of science. These are characteristics of the greater socialisation of production achieved under capitalism. But this socialisation only takes place under the direction of capital, and the product of socialised labour is appropriated by the capitalist. Thus the social powers of labour, which appear only when labour is organised socially, appear to be the powers of capital. Moreover, since capital in turn is seen as a thing and not a social relation, these powers of capital seem to be inherent in the means of production, so that productivity appears as a technical characteristic of the means of production and not as a social characteristic of the labour process.

The *social configuration* in which the individual workers exist... does not belong to them... On the contrary, it confronts them as a *capitalist arrangement* that is *imposed* on them... And quite apart from the combination of labour, the social character of the conditions of labour — and this includes machinery and *capitale fixe* of every kind — appears to be entirely autonomous and independent of the worker. It appears to be a *mode of existence of capital* itself, and therefore as something ordered by *capitalists* without reference to the workers. Like the *social character* of their own labour, but to a far greater extent, the *social character* with which the conditions of production are endowed... appears as capitalistic, as something independent of the workers and intrinsic to the conditions of production themselves... In the same way, *science*, which is in fact the general intellectual product of the social process, also appears to be the direct offshoot of capital. (*Capital*, I, pp. 1052–3, c.f. *Theories of Surplus Value*, I, pp. 377–80) .

The capitalist process of exchange

Classical political economy considers exchange as a formal abstraction. The exchange relation is treated as a self-sufficient form of relation whose content is reduced to its formal properties. As such a formal abstraction the exchange relation is a relation between free and equal individual property-owners who enter a voluntary contract in pursuit of their own self-interest. The exchange relation in itself makes no reference to the circumstances in which the individual seeks to exchange, nor to the characteristics of the commodity offered for exchange, nor to the means by which the individual came upon that commodity. Since every exchange is freely entered by both parties it must be to the advantage of each and the conclusion is therefore that unfettered exchange can only serve the common interest. In this simple form of exchange:

all inherent contradictions of bourgeois society appear extinguished... and bourgeois democracy even more than the bourgeois economists takes refuge in this aspect... in order to construct apologetics for the existing economic relations. Indeed, in so far as the commodity or labour is conceived of only as exchange-value... then the individuals, the subjects between whom this process goes on, are simply and only conceived of as exchangers. As far as the formal character is concerned there is no distinction between them, and this is the economic character, the aspect in which they stand towards one another in the exchange relation; it is the indicator of their social function or social relation towards one another... As subjects of exchange, their relation is therefore that of *equality*. It is impossible to find any trace of distinction, not to speak of contradiction, between them — not even a difference. Furthermore, the commodities which they exchange are, as exchange values, equivalent, or at least count as such. (*Grundrisse*, pp. 240–1)

If we look outside the act of exchange we still cannot find any class relations, for according to this model the relation of exchange brings together individuals who exchange a natural product in accordance with their natural needs:

As regards the content outside the act of exchange... this content, which falls outside the specifically economic form, can only be: (1) The natural particularity of the commodity being exchanged. (2) The particular natural need of the exchangers... The content of the exchange... far from endangering the social equality of individuals, rather makes their natural difference into the basis of their social equality... In this respect, however, they are not indifferent to one another, but integrate with one another... so that they stand not only in an equal, but also in a social, relation to one another... In so far as these natural differences among individuals and among their commodities... form the motive for the integration of these individuals... there enters, in addition to the quality of equality, that of *freedom*. (*Grundrisse*, pp. 242–3)

If we turn our attention from a society of independent commodity producers to a capitalist society in which labour-power has become a commodity there appear to be no significant changes in the exchange relation. The form of property remains apparently unchanged, exchange still appears to relate free and equal commodity-owners. Every exchange is voluntarily contracted and is, at least ideally, an exchange of equivalents. It would therefore seem to be legitimate to apply the liberal model of the free and equal society based on the freedom and equality of exchange to the capitalist society as much as to

the society based on simple commodity production. The only difference now is that one more commodity has come onto the market, the worker selling not the products of his or her labour, but his or her labour-power, but this commodity, like any other, is exchanged freely and voluntarily.

However, if we look at the process of exchange not from the mythical point of view of the isolated individual, but in terms of the social relations that exchange articulates, matters appear very differently: 'The illusion created by the money-form vanishes immediately if, instead of taking a single capitalist and a single worker, we take the whole capitalist class and the whole working class'. (*Capital*, I, p. 713)

If we isolate distinct acts of production and exchange from one another we abstract them from the system of social production within which they take place. Such an abstraction would be forced, for to separate these acts from one another is to deprive them of any meaning. Each act of production or exchange only makes sense as a moment of the total process of social production, so the motive of each exchange can only be found in the process as a whole. The examination of the social form of capital has revealed the social foundations of capitalist production to lie in the class-relation between capital and wage-labour. This class-relation is the presupposition of every individual act of production and exchange, and alone gives meaning to those acts. If the act of exchange is isolated from the reproduction of capitalist social relations of production of which it is but one moment, the act itself becomes irrational. Thus, for example, the capitalist, as a capitalist, does not purchase labour-power in order to enjoy the use-value of that commodity directly, for labour-power has a use-value for the capitalist only in the process of production of surplus-value. The capitalist does not produce commodities in order to satisfy his own consumption needs, but in order to expand his capital. Labour-power is not a commodity like any other:

Here... we are not concerned with the merely *social division of labour* in which each branch is autonomous, so that, for example, a cobbler becomes a seller of boots but a buyer of leather or bread. What we are concerned with here is the *division* of the *constituents of the process of production* itself, constituents that really belong together. (*Capital*, I, p. 1015)

This division, which is the basis of the class-relation between capital and labour, represents a completely different social relation from that effected between independent commodity producers by the social division of labour, and so the production of capital expresses a completely different social relation from the production of commodities.

74 Marx, *Marginalism and Modern Sociology*

In the actual *commodity-market*, then, it is quite true that the worker, like any other owner of money, is a buyer and is distinguished by that fact alone from the commodity-owner as seller. But on the *labour-market*, money always confronts him as *capital* in the form of money, and so the owner of capital appears as capital personified, as a *capitalist*, and he for his part appears to the owner of money merely as the personification of labour-power and hence of labour, i.e. as a *worker*. The two people who face each other on the market-place, in the sphere of circulation, are not just a *buyer* and a *seller*, but *capitalist* and *worker* who confront each other as buyer and seller. (*Capital*, I, p. 1015)

Thus nobody enters exchange as a pre-social individual. We are from the beginning concerned with

society, social relations based on class antagonism. These relations are not relations between individual and individual, but between worker and capitalist, between farmer and landlord, etc. Wipe out these relations and you annihilate all society. (*Collected Works*, 6, p. 159)

The result of the process as a whole is that the worker

emerges from the process as he entered it, namely as a merely subjective labour-power which must submit itself to the same process once more if it is to survive. In contrast to this, capital does not emerge from the process as it entered it. It only becomes real capital... in *the course* of the process. It now exists as capital realised in the form of the aggregate product, and as such, as the property of the capitalist, it now confronts labour once more as an autonomous power even though it was created by that very labour... Previously, the conditions of production confronted the worker as capital only in the sense that he *found* them existing as *autonomous* beings opposed to himself. What he now finds opposed to him is the product of his own labour. What had been the premiss is now the result of the process of production... Therefore it is not only true to say that labour produces on a constantly increasing scale the conditions of labour in opposition to itself in the *form* of *capital*, but equally capital produces on a steadily increasing scale the productive wage-labourers it requires. Labour produces the conditions of production in the form of capital, and capital produces labour, i.e. as wage-labour, as the means towards its own realisation as capital. (*Capital*, I, 1061–2)

The result is that the capitalist production process, seen as a whole, produces not only use-values, but values; not only values, but surplus-value; not only

surplus-value, but the social relation of production between capital and labour. The capitalist form of property is both the premiss and the result of capitalist production and exchange. 'This incessant reproduction, this perpetuation of the worker, is the absolutely necessary condition for capitalist production.' (*Capital*, I, p. 716, c.f. pp. 723–4, 1065)

This form of property, although based on the freedom and equality of every commodity owner, and so still compatible with the legal form of private property appropriate to simple commodity production, is in fact the negation of freedom and equality:

Each individual transaction continues to conform to the laws of commodity exchange, with the capitalist always buying labour-power and the worker always selling it at what we shall assume is its real value. It is quite evident from this that the laws of appropriation or of private property, laws based on the production and circulation of commodities, become changed into their direct opposite through their own internal and inexorable dialectic. The exchange of equivalents, the original operation with which we started, is now turned round in such a way that there is only an apparent exchange, since, firstly, the capital which is exchanged for labour-power is itself merely a portion of the product of the labour of others which has been appropriated without an equivalent: and, secondly, this capital must not only be replaced by its producer, the worker, but replaced together with an added surplus. The relation of exchange between capitalist and worker becomes a mere semblance belonging only to the process of circulation, it becomes a mere form, which is alien to the content of the transaction itself, and merely mystifies it. The constant sale and purchase of labour-power is the form; the content is the constant appropriation by the capitalist, without equivalent, of a portion of the labour of others which has already been objectified, and his repeated exchange of this labour for a greater quantity of the living labour of others... The separation of property from labour thus becomes the necessary consequence of a law that apparently originated in their identity... To the extent that commodity production, in accordance with its own immanent laws, undergoes a further development into capitalist production, the property laws of commodity production must undergo a dialectical inversion so that they become laws of capitalist appropriation... This *dispels* the illusion that we are concerned here merely with *relations between commodity-owners*. This constant sale and purchase of labour-power, and the constant entrance of the commodity produced by the worker himself as *buyer of his labour-power* and as constant capital, appear merely as *forms which mediate* his subjugation by capital. (*Capital*, I, pp. 729–30, 733–4, 1063)

The 'trinity formula'

On the basis of his investigation of the social form of the commodity Marx was able to establish the historical specificity of capitalist social relations and so to undermine the abstract naturalism of classical political economy. Marx's critique of political economy in *Capital* culminates in the critique of the classical theory of class, a theory that Marx characterised by its reliance on the 'trinity formula': land-rent labour-wages; capital-profit.

The classical theory of class is very different from that developed by Marx. Classical political economy constructs the theory of class, like the rest of its social theory, on a naturalistic foundation. Classes arise on the basis of a differentiation of functions in the technical division of labour. Thus the 'factors' of production -land, labour and capital — are each considered to make specialised contributions to production, so that the social differentiation between the owners of these commodities is an expression of a supposedly technical differentiation between the factors of production. The existence and specific social functions of the three social classes — landowners, wage-labourers and capitalists — are then considered to be the inevitable consequence of the existence of land, labour and means of production as 'factors' of production and 'sources' of revenue.

The starting point of the trinity formula is the perfectly accurate observation that revenues accrue to the owners of particular commodities. Thus profit is the revenue that accrues to the owner of means of production; interest, the revenue that accrues to the owner of money, wages the revenue that accrues to the owner of labour-power and rent the revenue that accrues to the owner of land. However, the theory then abstracts from the social relations within which these things function as commodities and within which alone they appear as sources of revenues, to postulate that it is the things themselves that give rise to the revenues in question. Things acquire miraculous social powers as soon as they come into the possession of their owners. This is the culmination of the fetishism of commodities: 'The form of revenue and the sources of revenue are the *most fetishistic* expression of the relations of capitalist production. It is their form of existence as it appears on the surface, divorced from the hidden connections and the intermediate connecting links.' (*Theories of Surplus Value*, III, p. 453)

The trinity formula is based on abstraction from the social process of formation of value and of surplus-value and consequently abstracts from the class-relations on which this process is based. In their place we find only relations between individual commodity owners whose distributive shares of the product are determined by the natural characteristics of the commodities they happen to own. Thus distribution-relations are made to appear as natural relations, characteristic of any society.

It is quite possible to recognise the existence of class conflict within the theory of the trinity formula, for different commodity-owners have different revenue-sources. It is quite possible that owners of means of production have common interests that could conflict with the interests of owners of land. However, within this theory such class differences arise on the basis of commodity-ownership, and so on the basis of the freedom and equality of individual commodity-owners. Such differences of interest are distinctly secondary, and are subordinate to the fundamentally harmonious relationship between these individuals which is based on the necessary co-operation of the different factors of production from which they derive their revenues. Thus to recognise conflicts over *distribution*, and so the possibility of, for example, political intervention to modify distribution, is not to question the inevitability and the necessarily harmonious character of capitalist *production*-relations.

However much the trinity formula might accord with the illusions of the individuals engaged in capitalist social relations, it does not stand up to serious analysis. In the first place, it is not precisely clear what properties of the commodities that serve as revenue-sources give rise to their corresponding revenues. Thus different versions of the theory attribute profit to 'capital', to 'money' or to the 'means of production'. The source of profit is alternatively the 'abstinence' of the capitalist; the labour of superintendence; the productive powers of the means of production, the 'roundaboutness' of capitalistic methods of production, the taking of risks or simply the passage of time. The source of wages is variously the subsistence needs of the worker, the unpleasantness of work or the productive powers of labour. The source of rent is variously the fertility of the soil, the progressive infertility of the soil or the scarcity of land. There are, therefore, not one but many different versions of the trinity formula, none of which can provide a satisfactory definition of the source of the revenue in question.

More fundamentally, the formula is irrational, for things cannot have social powers unless those powers are bestowed on them by their insertion in particular social relations. It is only within particular social relations that things become commodities and able to function as sources of revenue. Labour can only appear as the source of wages in a society in which labour-power has become a commodity. In such a society it is labour-power, and not labour, whose sale gives rise to wages, and wages are determined in a competitive struggle between capitalists and workers that presupposes the class relation between a class that is able to monopolise the means of production and subsistence and a class that is deprived of access to the means of production and subsistence except through the sale of labour-power. It is, therefore, only on the basis of the class-relation between capital and labour that labour-power becomes a commodity and so a potential (and not

necessarily actual) source of wages. The commodity labour-power whose value appears in the form of the wage has nothing to do with the labour that is engaged as a factor in the production process. The labourer sells his or her labour-power, not the product of his or her labour, and the capitalist is contracted to pay for that labour-power for so long as he has it at his disposal, however he may employ it.

The same is true of capital:

capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character. Capital is not the sum of the material and produced means of production. Capital is rather the means of production transformed into capital, which in themselves are no more capital than gold or silver in itself is money. It is the means of production monopolised by a certain section of society, confronting living labour-power as products and working conditions rendered independent of this very labour-power, which are personified through this antithesis in capital. (*Capital*, III, pp. 794–5)

The same is true of land. Rent as a share of the social product, is supposed to derive from the natural properties of the soil. Land certainly contributes to the production of things, the fertility of the soil being a major determinant of the productivity of labour, but the soil cannot claim back 'its' share. The share of rent can only be determined within definite social relations, and the share of rent will differ according to the form assumed by those relations.

The trinity formula is irrational because it isolates the individual act of exchange, within which the service of a productive factor is exchanged for a revenue, from the system of social production of which it is necessarily a part. In abstraction from that system the act of exchange is irrational, so any attempt to explain the source of the revenue on the basis of that act can only be irrational in its turn. However, the individual act of exchange is the basis and the limit of the immediate experience of the members of a capitalist society. However irrational it may be, the trinity formula accords accurately with a commonsense naturalistic interpretation of that experience. The illusions of the trinity formula therefore correspond to the way in which capitalism presents itself in the sphere of competition, the irrationality of the trinity formula reflecting the alienated character of capitalist social relations. The critique of the trinity formula has not simply to criticise it as illusory and irrational, but also to show how it arises out of the form of appearance of capitalist social relations as the culmination of the fetishism of commodities.

In competitive exchange the social character of the commodity is effaced, as a social relation is mediated through the exchange of things between

private individuals. In the form of the commodity a social relation assumes an objective and coercive power which is fetishistically attributed to the commodity itself. This is as true of the relations within which the elements of production are exchanged as it is of the relations of exchange between commodity-producers.

The foundation of the illusion of the trinity formula is the 'wage-form', which is the form in which labour-power is purchased and sold as a commodity. Since the worker is employed by the day, the week or the year it appears as though the worker is being paid the full price of his or her labour and not for his or her labour-power.

The wage-form thus extinguishes every trace of the division of the working-day into necessary labour and surplus labour, into paid labour and unpaid labour. All labour appears as paid labour... We may therefore understand the decisive importance of the transformation of the value and price of labour-power into the form of wages, or into the value and price of labour itself. All the notions of justice held by both the worker and the capitalist, all the mystifications of the capitalist mode of production, all capitalism's illusions about freedom, all the apologetic tricks of vulgar economics, have as their basis the form of appearance discussed above, which makes the actual relations invisible, and indeed presents to the eye the precise opposite of that relation. (*Capital*, I, p. 680)

The wage-form is the basis of all the other illusions of the trinity formula. These illusions arise because it appears that labour has already been rewarded for its contribution in the form of the wage. If the value of labour-power is attributed to labour as a factor of production and that value is less than the total value of the commodity, then the remainder of the value must have some other source than labour:

the other portions of value, profit and rent also appear independent with respect to wages, and must arise from sources of their own, which are specifically different and independent of labour; they must arise from the participating elements of production, to the share of whose owners they fall; profit arises from the participating elements of production, the material elements of capital, and rent arises from the land, or Nature, as represented by the landlord... Because at one pole the price of labour-power assumes the transmuted form of wages, surplus-value appears at the opposite pole in the transmuted form of profit. (*Capital*, III, pp. 805, 36)

The capitalist receives a profit in exchange for his capital, and consequently the capital itself appears to be the source of that profit. In the transformation of surplus-value into profit the illusion arises that it is the entire capital that gives rise to surplus-value and its specific origin, in the extraction of surplus-labour, is concealed. Moreover, in the course of the production and realisation of surplus-value capital takes on various forms — money capital, productive capital, commodity capital and the functions that fall to each of these forms in the reproduction of capital may be taken on by specialised capitals — money-lenders' capital, industrial capital and commercial capital. Each of these capitals must be compensated by receiving a share of the surplus-value and this gives rise to the distinctive forms of surplus value - interest, the 'profit of enterprise' and commercial profit, each of which appears to have a distinctive source. Finally, barriers to the equalisation of the rate of profit give rise to rent, which is not a product of the land, but a form of surplus value.

The relationship between surplus-value and the forms in which it appears as interest, commercial profit, the profit of enterprise and rent is a complex and mediated relationship in the development of which the nature and determinants of surplus-value are systematically obscured. All the phenomena that appear in competition

seem to contradict the determination of value by labour-time as much as the nature of surplus value consisting of unpaid surplus labour. Thus everything appears reversed in competition. The final pattern of economic relations as seen on the surface, in their real existence, and consequently in the conceptions by which the bearers and agents of these relations seek to understand them, is very different from, and indeed quite the reverse of, their inner but concealed essential pattern and the conception corresponding to it. (*Capital*, III, p. 205)

For each individual capitalist the given pre-conditions of capitalist production are wages, the costs of raw materials and means of production, and the rent and interest payable. In setting the price at which he will sell his commodity the capitalist adds to these costs of production, which make up the 'cost-price' of the commodity, his expected rate of profit, which corresponds more or less to the normal profit of enterprise. The 'portions into which surplus-value is split, being given as elements of the cost-price for the individual capitalist, appear conversely therefore as creators of surplus-value, creators of a portion of the price of commodities, just as wages create the other'. The result is that \

profit seems to be determined only secondarily by direct exploitation of labour, in so far as the latter permits the capitalist to realise a profit deviating from the average profit at the regulating market prices, which apparently prevail independent of such exploitation. Normal average profits themselves seem immanent in capital and independent of exploitation; abnormal exploitation, or even average exploitation under favourable, exceptional conditions, seems to determine only the deviations from average profit, not this profit itself. (*Capital*, III, pp. 249, 806)

Thus the theory embodied in the trinity formula corresponds exactly to the experience and the everyday conceptions of the individual capitalist.

The appearance of capitalist social relations in the form of the trinity formula is consistent with the reality of the class-relation between labour and capital because it really is the case that the value of labour-power and surplus-value appear in the forms of wages, profit and rent and these forms therefore really are the starting point of the economic activity of the individual member of capitalist society.

These ready-made relations and forms, which appear as preconditions in real production because the capitalist mode of production moves within the forms which it has created itself and which are its results confront it equally as ready-made preconditions in the process of reproduction. As such, they in fact determine the actions of individual capitalists, etc., and provide the motives, which are reflected in their consciousness. (*Theories of Surplus Value*, III, p. 485)

The capitalists are not aware that in producing commodities in order to make a profit they are also producing and reproducing capitalist social relations. To the individual the appearances seem natural and rational, for the individual takes for granted the social relations within which things acquire their social powers. The need to reproduce capitalist social relations does not immediately enter into the consciousness of the individual capitalist, yet in fulfilling his role in the capitalist production of commodities this is nevertheless what the individual capitalist achieves.

So long as political economy does not question the naturalness of capitalist social relations it is unable to get beyond the illusions of the trinity formula and it can do no more than present in a more or less systematic fashion the irrational forms in which capitalist social relations appear. The critique of political economy depends on a critique of the apparently natural foundations of capitalist social relations in order to establish that those social relations express a particular social form of production. This is what Marx

achieved in his critique of the trinity formula as the fullest development of the fetishism of commodities. It would seem that the critique of political economy is complete. However, there is still one contradiction to be resolved.

The 'trinity formula' and the theory of value: the Ricardian contradiction

The trinity formula corresponds to the form in which social relations appear to the members of society, as relations in which things are exchanged by private individuals. It therefore expresses in the most developed form the alienated character of commodity production within which social relations appear in the form of relations between things. It represents the culmination of the fetishism of commodities and the basis on which bourgeois social theories achieve the naturalisation of capitalist class relations.

We have already seen that the physiocrats identified the natural fertility of the soil as the source of rent, and that Adam Smith at times seemed to be extending the physiocratic theory to capital. The generalisation of the physiocratic theory of distribution which became the basis of subsequent vulgar economy, was completed by J.-B. Say, for whom the revenues accruing to the different factors of production corresponded to the productive contributions of each factor. The problem with this sort of theory, as we have seen in the case of Smith, is that it is not only irrational, in attributing social powers to things, but it is also indeterminate. Since wages, rent and profit are determined independently of one another, in accordance with the respective productive contributions of labour, land and capital, the price of the commodity is simply the sum of wages, rent and profit. However, wages, rent and profit are themselves prices, so in the absence of a theory of general equilibrium within which all prices and revenues are determined simultaneously, 'vulgar economy' lacks any determinate theory of distribution.

Smith and Say made important contributions in elucidating the relations between land, labour and capital, on the one hand, and rent, wages and profit, on the other, as they appeared on the surface of capitalist society. However they were unable to penetrate to the 'obscure structure of the bourgeois economic system' beneath its 'externally apparent forms of life' because they had no theory of value that would enable them to explore the relations between the classes.

The labour theory of value is the basis on which 'Ricardo exposes and describes the economic contradictions between the classes — as shown by the intrinsic relations — and that consequently political economy perceives, discovers the root of the historical struggle and development' (*Theories of*

Surplus Value, II, p. 166). However, class-relations disappear 'in the phenomena of competition', for here members of classes relate to one another as individuals and each class appears to have an independent source of revenue. Thus Smith noted that quite different factors appear to regulate wages, profits and rent respectively. Moreover, price bears no apparent relation to labour-time, being (tautologously) the sum of costs, which Smith reduces to wages, profit and rent. Finally, in relation to individual commodities there is no necessary relationship between wages and profits, an increase in wages being associated sometimes with a rise in profits. Thus Smith abandoned the labour theory of value as soon as he moved beyond the early and rude state of society to adopt an 'adding up' theory of price that corresponded to the apparent relations expressed in the trinity formula.

Ricardo insisted on retaining the labour theory of value despite the fact that it apparently contradicted the determination of prices in the individual relations of competition. Ricardo was well aware of the contradiction, but he could not afford to abandon the labour theory of value because without it he could not explore the relations between classes. He therefore sought to reconcile the theory of value with the determination of price. He did this through the misguided search for a formalistic solution to the problem that prices are affected by the distribution between wages and profits. This was his search for an 'invariable measure of value'. The defenders of Ricardo sought similar formalistic solutions to the contradictions to which the Ricardian theory of value gave rise. These contradictions the later Ricardians

attempt to solve with phrases in a scholastic way. Crass empiricism turns into false metaphysics, scholasticism, which toils painfully to deduce undeniable empirical phenomena by simple formal abstraction directly from the general law, or to show by cunning argument that they are in accordance with that law. (*Theories of Surplus Value*, I, p. 87)

The obvious alternative to such metaphysics was to return to the approach of Smith and Say which derived the revenues of the different factors of production independently of one another. Such an approach had the merit of constructing a theory of distribution that accorded with the commonsense experience of the members of capitalist society. The 'vulgarisation' of political economy could claim a certain descriptive validity, so that 'vulgar economy' could present itself as an empirically grounded doctrine against the dogmatic abstractions of Ricardian political economy. Moreover it had the added ideological appeal of a theory that determined distributive shares independently of one another, and so dissolved the conflicts that were inherent in the Ricardian theory. However, to abandon the labour theory of

value was to abandon any attempt to penetrate the illusions of the fetishism of commodities in order to establish a determinate theory of class relations. Thus for Marx the vulgarisation of political economy marked the abandonment of any scientific pretensions.

Whereas the classical, and consequently the critical, economists are exercised by the form of alienation and seek to eliminate it by analysis, the vulgar economists, on the other hand, feel completely at home precisely with the alienated form in which the different parts of value confront one another. (*Theories of Surplus Value*, III, pp. 502–3)

It is clear that the contradiction between price and value is potentially fatal for the Ricardian system, but to abandon the labour theory of value would be to abandon any attempt to develop a determinate theory of class relations. The theories of vulgar economy are, trivially, consistent with the observed tendency for prices to be formed in accordance with the equalisation of the rate of profit on capital, but are indeterminate. The Ricardian theory of value gives a determinate theory of distribution, but one which does not accord with observed tendencies. The contradiction can only be resolved by distinguishing clearly between the formation of surplus-value, on the basis of the expenditure of surplus labour, and the formation of profit, on the basis of the equalisation of the rate of profit, and by investigating more closely the relationship between the two in order to show that the contradiction is 'an *illusion* which arises from the development of the thing itself' (*Theories of Surplus Value*, II, p. 32). This must involve a repudiation of the formal abstraction of classical political economy in order to uncover the real movement in which surplus labour takes the form of surplus-value and surplus-value is transformed into profit.

Ricardo could not do this because his method of formal abstraction led him to ignore the specific features of the social form in which prices diverge from values and so from the specific determinants of price in a particular form of society. It is because he could not see capitalism as a particular form of society that he was concerned only with the immediate determination of the magnitude of value and so attempted the immediate reconciliation of value and price. Thus he

wants to show that the various economic categories or relationships *do not contradict the theory of value*, instead of, on the contrary, *developing* them together with their apparent contradictions out of this basis or presenting the development of this basis itself... Hence the contradiction between the general law and further developments in the concrete circumstances is to be resolved not by the discovery of the connecting

links but by directly subordinating and immediately adapting the concrete to the abstract. (*Theories of Surplus Value*, II, p. 150; III, p. 87)

The reconciliation of surplus-value and profit can only be achieved by an analysis of the real social processes through which each is formed. Prices are not relations between things, but are the expression and means of regulation of social relations of production. The price of any commodity, however, will express not one but a number of social relations. The commodity is produced by a set of workers, under the direction of a particular capital, in competition with other capitals, selling perhaps to yet other capitals or perhaps to workers. The commodity therefore exists at the point of intersection of a series of social relationships between and within classes. Fluctuations in the prices of individual commodities are the means by which a range of social relations are regulated.

The framework within which prices regulate the social relations of production is that of the material and social reproduction of capitalist society. The price-mechanism is the means by which the conditions for the expanded reproduction of capital, without which no material production would take place, are constantly recreated. An analysis that ignores the social form of price and so does not concern itself with social relations, will abstract the formation of price from this context, within which alone it has any social significance, to construct scholastic formulae, or sets of simultaneous equations, that will accurately predict the price of a commodity. The more complex are such formulae the more accurately will they be able to achieve their predictive task and the less they will illuminate.

A more adequate theory will have to analyse the formation of prices within the framework of the expanded reproduction of capital and make this the basis of its abstractions. Within this framework the most abstract level of analysis is that of the reproduction of the class relation between capital and labour since this is the fundamental social relation of a capitalist society whose reproduction is the condition for the reproduction of all other social relations. In Volume One of *Capital* Marx was concerned to explore this aspect of capitalist reproduction alone. The labour theory of value provides an appropriate and an adequate basis on which to investigate the relationship between capital and wage-labour in the exchange of capital for labour-power and in the production of value and of surplus-value, and so Marx's analysis was conducted on that basis.

The theory of surplus-value does not depend on the assumption that commodities in practice exchange at prices corresponding to their labour-values. The assumption of equivalent exchange in this sense is an assumption appropriate at this level of abstraction, but not one on which the substance of the argument depends. The theory of surplus-value depends on the

distinction between labour and labour-power, that defines the social form of the relation between labour and capital, and it is on this basis that the theory establishes that the source of surplus-value is the unpaid labour of the wage-worker. Whatever the prices at which commodities exchange, the *source* of surplus-value remains the surplus labour of the wage-worker. It is therefore appropriate to conceptualise the relation between capital and labour within which surplus-value is produced on the basis of the labour theory of value, since this eliminates all extraneous considerations at this level of abstraction.

Many commentators have recognised that the theory of surplus value does not depend on the assumption that commodities in practice exchange at prices corresponding to labour-values, only to claim that it rests instead on the moral argument, derived from a reading of Locke, that labour is entitled to its full product. This claim is also fallacious. The entitlement of labour to its full product is not a moral argument propounded by Locke or any other philosopher. It is a description of the social and juridical reality of a commodity-producing society. Such a society has eliminated the compulsory obligations laid on the slave and the serf to labour for another and has established the unchallengeable right of the labourer to the full fruits of his or her labour. However it has also given the labourer the unchallengeable right to assign his or her right to the product to another and so to enter into the wage-contract by which he or she will labour for the benefit of another. The philosophers have not invented these rights, they have merely sought to reconcile the contradictions to which they give rise. The illusion of the wage-form is the illusion that the worker receives the full fruits of his or her labour. By contrast, Marx's analysis of exchange as a moment of the reproduction of capitalist social relations, establishes that surplus-value is the value-form of labour that is appropriated without equivalent.

In the analysis of the transformation of surplus-value into profit — and of profit into its fragmented forms of interest, commercial profit, the profit of enterprise and rent — we have to move beyond consideration of the class relation between capital and labour to consider the relations between capitalists. In looking at these relations we are no longer concerned with the social relation within which surplus value is produced, but are now looking at relations within which existing surplus-value is distributed amongst the individual capitalists. The analysis of these relations within the capitalist class presupposes the analysis of the class relation between capital and labour, both formally, in that capitalists can only exist on the basis of the existence of a class of wage-labourers, and substantively, in that exchange can only redistribute commodities that have already been produced and appropriated within the capitalist class-relation. The mechanism by which shares in the total surplus value are allocated to individual capitals is that of the formation

of prices through capitalist competition, and the theoretical problem at this level of abstraction is to specify the law of that competition.

Within the system of petty commodity production Marx assumed that the law of competition was that of the exchange of commodities at prices corresponding to their labour-values. This law is determined by the requirements of the material and social reproduction of a society of petty commodity producers. On the basis of such exchanges labour will tend to be allocated to various branches of production in accordance with the requirements of the material reproduction of that society. If too much labour is allocated to a given branch of production the price of the commodity will fall below its value and some producers will transfer their production to underpopulated branches. The social co-ordination of production is thus achieved through the equilibration of competitive markets at prices corresponding to labour-values. However, the exchange of commodities at prices corresponding to their values is not an inexorable law; it is the social law of competition appropriate to a particular (hypothetical) type of society.

Within a capitalist society such a law of competition would be inappropriate since it would not permit the material reproduction of society. If it were the case that individual capitals appropriated surplus-value in accordance with their contribution to its production the result would be that only industrial capitals would earn a profit, while the rate of profit on different industrial capitals would be different, depending on the organic composition and the turnover time of the individual capital. Within a capitalist society the *law of motion* of capital is the need for capital constantly to expand itself, a need that is enforced through the competition between capitals in which the less successful are destroyed. Thus if commodities exchanged at their values, every capital would be applied in the most profitable branch of production and nothing else would be produced. The law of capitalist competition is not, therefore, the tendency for commodities to exchange at prices corresponding to their values, but is the tendency for commodities to exchange at prices corresponding to the equalisation of the rate of profit. The material reproduction of capitalist society requires that commodities exchange at prices that, in general, diverge from values in such a way as to equalise the rate of profit on different employments of capital.

It is quite possible that the transformation of values into prices in the course of capitalist competition might have an effect on the quantitative determination of the rate of surplus-value through its effect on the value of labour-power. However any such quantitative modification of the determination of the rate of surplus-value has no implications for the analysis of the social form of the production and appropriation of surplus-value, nor for the conclusion of that analysis that the basis of surplus-value is the social

relation of capitalist production and its source is the unpaid labour of the working-class. Thus the distributional impact of the transformation of values into prices is an aspect of the redistribution of value, that can only be adequately conceptualised on the basis of the prior theory of value and surplus value, not an aspect of its production and appropriation.

Classical political economy could not resolve the Ricardian contradiction between value and price because it failed to recognise the social foundations of capitalist production, and so was unable to distinguish the social processes of the production and appropriation of surplus-value, on the one hand, and the redistribution of surplus value, on the other. Marx's critique of political economy, in exploiting the social form of capitalist production and reproduction, was able finally to resolve this contradiction by establishing that value and price are concepts that are both valid, but that are appropriate to the investigation of different social processes which have to be analysed at different levels of abstraction. Thus Marx was finally able to reconcile a theory of the class-relationship of capitalist society with the determination of revenues in exchange.

Marx's critique of political economy was both positive and negative, establishing both the relative validity of the theory of capitalist society developed by political economy and the limits of that validity. The scientific value of political economy lay in its identification of the concept of class as the fundamental concept of the theory of capitalist society and of the concept of value as the fundamental concept of the theory of the capitalist economy. Classical political economy failed to locate the social and historical foundations of these concepts in particular social relations of production, instead identifying class as an aspect of the technical division of labour and value as a technical aspect of the labour process. Moreover, classical political economy was unable to reconcile the theory of class and the theory of value with the empirical formation of revenues and of prices in individual competition because it was unable to recognise that 'class' and 'value' are abstract concepts appropriate to the conceptualisation of the systematic social relations that structure the relations between individuals, and not directly applicable to those individual relations themselves.

In reformulating the classical theories of class and of value, and in establishing the level of abstraction at which the concepts of class and value are appropriate, Marx established the foundations on which any adequate theory of capitalist society must be built. However, the construction of such a theory could not rest content with the formulation of abstract concepts. In order to locate those concepts historically, as the means of understanding a particular capitalist society, the theory had to develop the mediations appropriate to the application of those concepts at lower levels of abstraction, incorporating consideration of social relations other than those between

classes. Such consideration would modify the results of the most abstract analysis, introducing new determinations, but such modification could only be on the basis of the abstract theories of class and of value. In *Capital* Marx developed the mediations through which relations of class and value appear in the economic reproduction of capitalist society. Throughout his works he left indications of how the analysis might be developed to accommodate the political and ideological mediations that determine the social and political reality of class relations. However, Marx's legacy was not so much a complete theory of capitalist society as the specification of the foundations on which such a theory must be built. Despite the theoretical contributions of later Marxists the task that Marx assigned to social theory has still to be completed, for the energies of social scientists of the past century have been largely devoted not to completing that task but to reproducing the ideological conceptions of capitalist society developed by classical and vulgar political economy. The basis of the modern social sciences as laid, not by Marx's critique of political economy, but by that developed in the course of the 'marginalist revolution'.

5

The Decline and Fall of Classical Political Economy

Classical political economy and the labour theory of value

In Chapter 2 I outlined the theory of society developed by Smith and discussed the significance of Ricardo's systematisation of that theory on the basis of the labour theory of value. It was the labour theory of value, which made it possible for political economy to offer a rigorous theory of the class-relations of capitalist society, that was for Marx the scientific core of classical political economy. Any renunciation of the labour theory of value, as by Say or Malthus, Bailey or Torrens, or even weakening of its exclusive claims, as by James Mill and McCulloch or by John Stuart Mill, represented an abdication from scientific responsibility and a corresponding vulgarisation of the classical doctrine. As we shall see, the marginalist critics of classical political economy similarly identified an irrational adherence to the labour theory of value, or, more generally, to a theory of value based on cost of production as the source both of the classical errors and of the socialist 'misinterpretations' of the classical doctrines. For both Marx and the marginalists the core of classical political economy was its implicit theory of class exploitation and the labour theory of value is the principal support of that theory.

However it is important not to accept too easily the characterisation of classical political economy offered by its opponents. Although Marx hailed classical political economy as a theory of class exploitation, and marginalists condemned it on the same grounds, the political economists themselves certainly did not see their theories in such terms, which is precisely why they retreated so rapidly from the pure labour theory of value. To characterise classical political economy by the labour theory of value is to see it only through the eyes of its opponents.

Of all those who could be called classical political economists only Ricardo adhered (almost unequivocally) to the labour theory of value. As we have seen, Smith had proposed a labour-commanded theory, but this was largely for methodological convenience. Say, who first systematised Smith's theory, adopted a theory of supply and demand that was also espoused by Malthus. Malthus, Bailey, Senior and many other leading economists

rejected the Ricardian theory of value altogether, while Ricardo's closest followers, James Mill and McCulloch, followed in turn by John Stuart Mill and Cairnes, all modified the labour theory in order to accommodate the awkward inconsistency between price and value. Even Ricardo himself at times indicated a willingness to abandon the labour theory. If we take the labour theory of value as the defining feature of classical political economy we reduce it to a system that had but one adherent.

We have seen that Ricardo's formulation of the labour theory of value contradicts the determination of prices according to the equalisation of the rate of profit. It seems that the theory could not be more blatantly falsified. However, for Ricardo and his followers the inconsistency between the determination of prices and the theory of value was a minor technical problem, to be resolved by various *ad hoc* expedients, that did nothing to undermine the authority of the doctrine. The fact that profit does not in fact correspond to the surplus labour embodied in the commodity was simply an inconvenient empirical phenomenon that called for some technical modifications to the theory, but that did not cast doubt on its fundamental correctness (in much the same way as friction affects the motion of falling bodies without invalidating the law of gravity). Ricardo himself did not dismiss the problem as inconsequential, for he devoted a great deal of energy to devising the 'scholastic formulae' that could resolve it. Although he did not achieve this, it is in fact the case that the problem can be solved if an appropriate standard of measurement is chosen. Ricardo's early followers and popularisers, James Mill and McCulloch, were more cavalier, explaining the divergence in terms of the independent addition of labour by machines. Thus the labour theory of value gave way to a cost of production theory within which direct labour was only one component part of value.

In scientific terms it was perfectly rational for Ricardo to adhere to the labour theory of value, and to seek to accommodate it to the reality of price formation through secondary adjustments, for the alternative was to return to the indeterminacy of the theories of Smith or of Say according to which prices are determined by supply and demand, which in turn depend on prices amongst many other things. On the other hand, such indeterminacy could prove very attractive to those who found the Ricardian conclusions unpalatable. Thus the fate of the labour theory of value was not determined by the internal logic of the Ricardian system, but by the ideological demands that were made on it. The essential ideological weakness of the Ricardian system is that it does not provide a very satisfactory basis on which to defend profit. Although Ricardo made vague reference to profit as the reward for 'waiting', the essence of his theory is to determine profit as a deduction from the product of labour, while its proportionality to capital is a contingent empirical characteristic of profit that conflicts with its essential relationship

to labour. The ideological defence of profit, however, required that the proportionality of profit to capital, and so to the magnitude of the capitalist's contribution, was not simply a contingent empirical phenomenon, but was rather its essential characteristic; it could hardly be claimed convincingly that profit was some kind of reward for capital if the size of the profit did not correspond in its essence to the size of the capital.

The inconsistency at the heart of the Ricardian system only came to acquire decisive significance when the proportionality of profit to capital came to acquire a decisive ideological and political importance. It was only then that the deviation of the rate of profit from the rate of surplus labour came to have a systematic significance greater than that, for example, of the 'market' rate of profit from the natural rate. It was the ideological challenge to profit presented by the growth of an independent working-class movement and by its socialist propagandists that was the circumstance that elevated a technical problem into a fatal contradiction and led economists away from the labour theory of value following an apparently purely intellectual logic.

The context of the modification, or in some cases abandonment, of the labour theory of value was the period of growing social tension in the early 1830s as the working-class, that had been mobilised in part by a bourgeois leadership within the reform movement, began to follow co-operative and socialist agitators such as Owen and Hodgkin. The debate was initiated in 1825 by Samuel Bailey, who rejected the very idea of a theory of 'absolute value', and was pursued most intensively in the Political Economy Club through the first half of the 1830s. The upshot of the debates was a nearly universal rejection of the labour theory of value in favour of some kind of 'adding up' theory, according to which the revenues of land, labour and capital could be determined independently of one another, somewhat in the manner of Adam Smith, Malthus and Say, by the interaction of supply and demand. Various theories of profit were proposed that gave profit an independent justification, either as the reward for the capitalist's abstinence and labour of superintendence (Senior, Scrope) or as a reward corresponding to the contribution of capital to the value of the final product (Read, Gray, Longfield). Longfield also followed up Say's suggestion that the reward for labour could likewise be related not simply to the subsistence needs of the labourer, but more fundamentally to the productive contribution made by labour.

The most energetic opponents of the labour theory of value, such as Cazenove, Scrope, Read and Longfield, were quite explicit about the need to repel the socialist attack and their prime motivation was clearly to provide a secure justification for the powers and privileges of capital. A similar concern to rebut the socialist interpretation of the deduction theory of profit clearly motivated Carey in the United States, Bastiat in France and Roscher

and Knies in Germany in rejecting the labour theory of value. However, their criticisms of Ricardo's theory of value did rest on an undeniable inconsistency in the theory, so it was perfectly possible for more disinterested thinkers to reject or modify the labour theory of value for what to them might seem purely intellectual reasons.

The abandonment of the labour theory of value was of great ideological importance, for its implication was that profit was no longer seen as a deduction, but as an independent revenue with its own source, which could now be defended against socialist attack. However, in Ricardo's system it was only the labour theory of value that made it possible to establish a determinate relationship between wages, rent and profit. Thus the price that had to be paid for the vulgarisation of political economy was that the system became indeterminate; in particular it became impossible to determine the rate of profit. To abandon the labour theory of value was to abandon the Ricardian ambition of providing a rigorous analysis of the relations between the classes. Thus Marx was right to criticise the vulgarisers for abandoning science for ideology, for 'vulgar economy' could only describe without being able to explain. It could serve to justify capitalist distribution relations; it could serve to denounce the Ricardian claims about conflicting class interests; it could assert the essential harmony of class relations, but it could not provide a foundation for a rigorous theory of the class-relations of capitalist society.

Vulgar economy was ideologically very powerful, for the revenues accruing to each factor of production could be justified, on the supply side, by the 'trouble and toil' incurred by labour or abstinence, and, on the demand side, by the contribution to production made by the relevant factor. Thus the theory of distribution could be assimilated to the theory of production, distribution relations expressing the operative interdependence of the factors of production. However, without an adequate theory of the demand for and supply of the factors of production, vulgar economy could have no more than an ideological value. Thus, when the vulgar critics of Ricardo were resurrected by historians of economic thought it was as 'some neglected British economists' (Seligman, E., 'On Some Neglected English Economists', *Economic Journal*, XIII, 1903), and their scientific neglect was fully justified.

For some the price of vulgarisation was too high a price to pay. Thus classical political economy, above all in John Stuart Mill's *Principles of Political Economy* (1848), sought to assimilate the vulgar criticisms into the Ricardian framework, restoring some semblance of rigour to the classical laws of distribution. Mill's cost of production theory of value retained the Ricardian relationship between wages, rent and profit as an approximate account of the relations between the classes. The abandonment of the labour

theory of value meant that the rate of profit became indeterminate, and so the impact on profit of an increase in rent could not be rigorously explored, but the cost of production theory of value did give the system the appearance of rigour and coherence and so served to renew the authority of classical political economy. It was its theory of distribution, rather than the labour theory of value, that was the real defining characteristic of classical political economy. If the labour theory of value had given classical political economy its scientific strength, it was the theory of distribution that gave it an ideological appeal that persisted into the 1860s.

The classical economic laws

In the most general terms political economy provided a theoretical framework within which to understand the social relations of capitalist society and within which to formulate the problems raised by the regulation of those social relations. The basis of this framework was the trinity formula that defined the fundamental component classes of capitalist society and within which the relations between those classes could be conceptualised. The theory of production established the fundamental harmony of class-relations on the basis of the complementarity of the different factors of production. The theory of exchange imposed a commitment to *laissez-faire* in the regulation of economic relations on the basis of the liberal principle of individual self-determination, subject to the obligation to respect life, liberty and property. Within this liberal framework any intrusion on the freedom of the individual to be the best judge of his or her own interests could only be justified to the extent either that the individual is unable to be the best judge of his or her own interests on the basis of ignorance or insanity, or that the action of the individual impinges on the life, liberty or property of others. The theory of distribution was the means by which the distinctive interests of the component classes of society were defined and related to one another.

Within this framework the specificity of classical political economy can be defined by the characteristic economic laws on the basis of which it defended its fundamental political principle, the principle of *laissez-faire*. Following Gide and Rist we can identify seven fundamental laws of classical political economy (Gide, C. and Rist, C. *A History of Economic Doctrines*, Second Edition, Harrap, London., 1948, pp. 359–71). The first four derive from the theory of exchange, and characterise any liberal economic theory, whether ‘classical’ or ‘vulgar’. These four are: first, *the law of self-interest*, which in its most general form states that individuals tend to pursue their economic ends in accordance with their rational self-interest. Economics is concerned to elucidate the implications of action performed on this basis, the most optimistic theories claiming to show that in a world of perfect liberty the

pursuit of self-interest spontaneously gives rise to social harmony and social progress. However such bland optimism was by no means generally characteristic of classical political economy, as we have seen. Second, *the law of free competition*, which again cannot be reduced to the doctrine of spontaneous harmony, but which states that competition will secure prosperity and progress in the absence of barriers to its operation. The recognition of such barriers is the only basis on which political or moral intervention in the competitive process can be justified. Third, *the law of supply and demand*, according to which market prices fluctuate around an equilibrium value in response to the interaction of supply and demand. Most of the classical political economists, and their marginalist successors, complemented this with Say's *law of markets* according to which supply created its own demand so that crises and unemployment could only be the result of impediments to the smooth operation of markets, set up, for example, by restrictions on the supply of money and credit. Fourth, *the law of international exchange* according to which both parties gain, although not necessarily equally, from international trade conducted according to the law of free competition. Again this law was not absolute, for it came to be recognised that in some circumstances, particularly in the case of goods in monopoly supply or in the case of an 'infant industry', there may be grounds for intervention in the market.

These four laws were regarded as almost self-evident. If individual capitalists pursued their own self-interest a regime of economic freedom would maximise their incentives and their opportunities and so result in the maximisation of profits and of economic growth. Any infringement of such freedom could only be justified to the extent that the abuse of economic power infringed the freedom and opportunities of others. However it was not so self-evident that the interests of capitalists in economic freedom was shared by the other classes of society, the landed interest and the working-class. Economic conflict between these classes over the determination of rent and wages was a feature of capitalist society that could hardly be ignored. The classical theory of distribution was an attempt to theorise this conflict in order to establish the relationship between the capitalist interest and the interests of society as a whole, and so to establish a proper basis on which to achieve the harmonious integration of capitalist society. Although Ricardo formulated the theory of distribution within the framework of the labour theory of value, the economic laws that defined the theory of distribution could equally be presented on the basis of other theories of value.

The first such law was the *law of rent*, according to which rent was determined by the difference in costs of production between the least and the most productive enterprises. The specific twist given to this law by Ricardo was to combine it with the law of diminishing returns in agriculture, from

which he deduced the secular tendency for rents to rise at the expense of profits. The rigorous formulation of this law did depend on the labour theory, but it was also espoused by those who adopted a cost of production theory, in which case it could be held as an approximation and not as an exact law. The law of rent could be rejected within the framework of classical political economy by rejecting the law of diminishing returns in agriculture or, as was done by Bastiat and Carey, by identifying rent with the return to capital invested in the land and so assimilating rent to profit. On the other hand, the apparent conflict of interest between land and capital that was implied by the law of rent could be dissolved by arguing that unproductive expenditure, characteristic of the landed class, was necessary to stave off the threat of underconsumption, as was argued by Malthus.

The interest of the working-class was defined not by the theory of value, which appeared to establish a conflict of interest between capital and labour, but by the *law of population* and the *law of wages*. These laws were formulated within the framework of a theory of economic growth and established the identity of interests of the working class and capital on the basis of their common interest in maximising the rate of growth, which depended on maximising the funds available to capital. Thus it was these laws that made it ideologically possible to sustain a theory of value that had apparently very radical implications. As we shall see, it was the collapse of faith in these laws that finally destroyed classical political economy.

The law of population derived from Malthus, was supposed to establish that population would tend to grow more rapidly than the supply of the means of subsistence, so that the latter would act as a check on the growth of population. The law of wages relied over the long-term on the law of population, as wages would be held down to the historically and customarily determined subsistence level by the operation of Malthusian checks. If wages rose above the customary subsistence level, workers would marry earlier and have larger families so that the supply of labour in the long-term would increase faster than the supply of the means of subsistence, forcing wages back to subsistence level, unless the experience of prosperity was sufficient to increase that level, or moral restraint (or, for the more progressive, mechanical devices) kept down the growth of population. If wages fell below the level of subsistence the judicious postponement of marriage, together with increased mortality, would slow down the growth of population to restore the *status quo*.

The law of population provided only a long-term mechanism, and was supplemented in the short-term by the mechanism of the wages-fund. The wages-fund doctrine postulated that the demand for labour was set by the supply of capital, in the form of the means of subsistence, that comprised the wages-fund. Any increase in wages meant that the wages-fund had to be

spread over fewer workers, and so would give rise to unemployment which would exert downward pressure on wages. The theory of value, whether a labour theory or a cost of production theory, established that the increase in wages would be at the expense of profits so that the depletion of the wages-fund would be the longer term result of an increase in wages, further reducing the demand for labour. Any permanent increase in the wages of one set of workers, achieved, for example, through the use of trade union power or through legislation, could only be at the expense of other workers whose wages would correspondingly be reduced by the overall limit set by the wages-fund. Wages could only be increased by increasing the size of the wages-fund through the accumulation of capital, or by reducing the supply of labour by practising moral restraint. The accumulation of capital would be the more rapid the less rent and taxation acted as a drain on profit and the more rapidly the productivity of labour increased to augment profit. Thus the inverse relation between wages and profits which appeared to establish a conflict of interest between labour and capital in practice served, within the framework of the wages-fund doctrine and the theory of accumulation, to establish their identity. In fact the wages-fund doctrine was very shaky, and political economy never satisfactorily reconciled the long-term Malthusian mechanism with the short-term wages-fund mechanism to establish that the latter would necessarily impose subsistence wages. However the law of wages, although theoretically the weakest link in the classical system, was its ideological lynch-pin.

The laws of classical political economy, based on the cost of production theory of value, the law of diminishing returns in agriculture, the law of population and the wages-fund doctrine formulated within the framework of a theory of economic growth, provided a theory of class that served to define the distinctive interests of the different sections of society and to relate these interests to one another. The theory provided a simple and flexible, though abstract, model within which the major political and constitutional debates that took place in Britain in the first half of the nineteenth-century could be conducted, bridging the gap between the abstractions of liberal political theory and the concrete issues that were of political and constitutional moment. In bridging this gap it tempered the moral arguments of liberal political theory, that the radicalism of the 1790s had shown to have dangerous implications if taken too literally, to provide an account much more appropriate to nineteenth century political circumstances.

While the debates surrounding the theory of rent were particularly pertinent to the constitutional and political issues raised by the 1832 Reform Bill and the repeal of the Corn Laws, finally achieved in 1846, the law of wages had a much broader significance, for it provided the main weapon against conservative and socialist opposition to the rule of capital.

Against socialists, the law of wages established with the imposing rigour of science that neither the combination of workers nor Mr Owen's co-operatives could alleviate the general condition of the working-class. The call for combinations and co-operatives served only as the rallying cry of demagogues seeking to secure the support of the ignorant mob in pursuit of their own sectarian ends. Combination may have had a limited value in correcting specific evils, caused for example by unscrupulous employers, and may even have had a positive value in encouraging the prudent provision for distress in periods of unemployment, sickness or old age, but the general combination of the workers against their employers was an unqualified evil. In the same way private charity and the Old Poor Law could not mitigate the evils they were supposedly designed to combat. They could only discourage the prudent provision of the workers for the future of themselves and their families and so intensify the misfortunes to which the working-class was inevitably subject. They were merely the deceitful means by which ancient privilege sought to reproduce its hold on the working class. Neither paternalism nor socialism, neither charity nor combination, could improve the lot of the working-class. Their only prospect of general improvement was through moral restraint and submission to the law of the market, while their political interests were best served by the representation of property whose own interest in its unfettered expansion could best secure the conditions for the workers' well-being.

The great strength of classical political economy was that it could reconcile the apparent distributional conflict between labour and capital with a more fundamental community of interests based to a common interest in the accumulation of capital. Vulgar economy, which rejected the classical laws of distribution in favour of a theory of distribution according to which revenues were determined independently of one another by the interaction of supply and demand, provided a much weaker foundation on which to reject the claims of labour because it depended on the bland assertion that distributional conflict did not exist, the market serving spontaneously to assign appropriate rewards to the factors of production, an assertion that could be countered by the equally confident claim of the socialists that the market was the means by which capital appropriated the product of labour. Early working-class agitation could be put down to the actions of a misguided mob, so that vulgar assertions of the harmony of class interests might be sufficient. However, the persistence of working-class demands, and the development of trade unions to further those demands, forced political economy in Britain to sharpen its ideological defences in order the better to rebuff demands for reform in the name of its natural laws. Thus classical political economy survived the criticisms of the 1830s; was reformulated by Mill in the 1840s, vindicated by the period of unprecedented prosperity and

social peace that followed the repeal of the Corn Laws in 1846 and was constantly reinvigorated by resistance to the exaggerated claims of trade unionism through the 1850s and 1860s. In Europe, however, where effective trade unionism developed later than in Britain and where the major challenge to the rule of capital was a political and ideological one, vulgar economy, in one form or another, reigned supreme.

Classical political economy and the birth of sociology

Classical political economy did not only face criticism from Marx and from vulgar economists. The presumption of a regime of *laissez-faire* did not appeal to everyone, least of all its victims. More fundamentally the faith of the political economists (both classical and vulgar) in the adequacy of the market as the means of regulating the class relations of capitalist society was by means universally shared, particularly in Continental Europe, where the economic and political dislocation associated with capitalist development appeared to have a more deep-seated origin than the self-interested abuse of privilege by the landed interest and the ignorance of the working-class. To many the unfettered rule of capital appeared to be a prescription not for prosperity and social peace but for exploitation and social conflict.

Criticism of political economy came from three major directions. First, political economy had to face conservative critics who believed that the development of capitalism was undermining the established order and creating a society marked by conflict and moral degeneration. Second, it had to face socialist critics who believed that exploitation was inherent in the capitalist system and who proposed reform on the basis of co-operation. Third, it had to face criticism from those who accepted the fundamental social relations of capitalist society, but who could not accept that such social relations could be regulated solely by the free play of the market.

Conservative critics did not share the economists' faith in the power of the hidden hand of the market to achieve social harmony and social integration. They pointed to the costs of capitalist development: crises, unemployment, undermining of paternalistic authority, class polarisation, socialist agitation, the destruction of cultural values and national spirit, and the erosion of the moral and political authority of the state, the church and the ruling class. Political economy neglected the spiritual, moral and aesthetic qualities of the human species and underestimated the importance of the essential ties of deference to and respect for authority that had held the medieval economy and society together and that were being destroyed by the advance of capitalism. Capitalism was an unviable form of society and conservatives counterposed organic theories to the liberalism of political economy, calling for a restoration, in one form or another, of the medieval order, enforced by

Church and State and governed by an hereditary ruling class. While such a romantic reaction was strong in the face of the French Revolution, and enjoyed occasional resurgences thereafter in periods of acute social tension, it could hardly survive the post-Napoleonic stabilisation of capitalist society. It did, however, provide resources, in its emphasis on moral, cultural and national values and on the need for the moral and political regulation of social relations, for later critics of the economists' preoccupation with economic interest.

While conservative critics tended to reject political economy in toto, the theorists of socialism accepted some parts of political economy while rejecting others. Thus they tended to accept the theory of production that defined the functional interdependence of labour, land and capital, while rejecting the theories of distribution and exchange. Socialists drew on Ricardo's deduction theory of profit, rejecting the law of population and the law of wages and so developing an exploitation theory of society within which profit derived from the monopoly power of capital. They also drew on democratic political theory and on Sismondi's criticism of the crises, unemployment and class polarisation that accompanied capitalist development. Thus, for socialists, exchange gave rise to inequality which was then the basis of exploitation as the rich abused their economic powers. Political economy focussed its attention on the positive features of a society based on private property, to the neglect of the polarisation of wealth and poverty, power and impotence, to which unfettered competition gave rise. Socialists therefore proposed the equalisation of property and the regulation of competition to prevent such polarisation and proposed that production should be organised on the basis of co-operation. Although the early socialists criticised the optimism and the fatalism of political economy, they nevertheless remained largely within the liberal framework that saw the free market as the necessary basis of liberty, equality and fraternity, believing, however, that only the equalisation of property would make it possible to achieve those ideals. Thus the socialist criticism of political economy inspired not only Marx, who carried it much further, but also later liberal reformers, such as John Stuart Mill, who incorporated many socialist ideas into his own political economy, recognising a role for co-operation in reducing inequality and the abuse of economic power.

The third major direction of criticism of political economy lay between the two just considered in retaining a commitment to a liberalism against reactionary romanticism and revolutionary socialism, while rejecting the claims of political economy that a regime of *laissez-faire* could best ensure the realisation of social harmony. Often drawing on the romantic and socialist critiques in stressing the limitations of *laissez-faire*, this kind of liberal reformism was directed at the over-abstraction of political economy,

at its reliance on the deductive method, its cosmopolitanism and its universal claims. Some critics accepted the laws of political economy, but insisted that they were time-and space-bound, appropriate perhaps to nineteenth-century Britain but inappropriate elsewhere. Others denied any possibility of formulating economic laws, insisting that economics be absorbed into sociology or history, disciplines that could perhaps formulate evolutionary or statistical laws. These criticisms were developed particularly in France and Germany, countries in which the liberal opposition to conservatism had increasingly to secure its flanks against the threat of socialism. Comtean sociology and the German Historical School both defined themselves in sharp opposition to political economy, but both remained within a liberal framework. They sought not to reject the liberalism of political economy but rather to make it appropriate to domestic political reality.

The ideas of economic liberalism had been popularised in France through Garnier's translation of Adam Smith and through Say's systematic exposition of Smith's principles in his *Traité d'économie politique* (1803). Say is best remembered for his law of markets, Say's law, but from the present point of view his work is important for four other reasons. First, Say decisively rejected the priority given to agriculture by Smith and the physiocrats, to bring industry into the front rank. Second, Say introduced the distinction between the capitalist, who lent capital at interest, and the entrepreneur, who hired capital, land and labour to undertake production. Third, on this basis Say developed the trinity formula as a theory of distribution according to which the revenues accruing to the owners of the factors of production corresponded to the contribution to production of the relevant factor, thus offering the first systematic formulation of 'vulgar economy'. The entrepreneur was the intermediary who organised the co-operation of the factors of industry, capital and land in production. The labour, or 'productive services', of these factors were hired by the entrepreneur who paid a suitable price, determined by supply and demand, for those services. Thus the intermediation of the entrepreneur and the vulgarisation of the theory of distribution dissolved any essential conflict of interest between capital and labour. Fourth, Say introduced a clear distinction between economic theory and economic policy, insisting that political economy offered an abstract theoretical discourse that could not give rise to policy prescriptions. Economic policies had, therefore, to be evaluated on their merits, political economy offering only one means of evaluation.

Say's formulation of Smith's theory proved especially appropriate to the circumstances of France. French capitalism was still struggling to emerge from underneath the burden of feudal privilege, despite the advances made by the Revolution. Thus political conflict did not yet centre on the proper balancing of class interests within an accepted framework of capitalism, as it

did in England, but rather on the conflict between the productive character of capitalist enterprise and the classes corresponding to it, on the one hand, and the unproductive character of the parasitic Church and State that carried over from the ancien regime, on the other. Say's separation of economic from political questions, his stress on the harmonious relations between the productive classes and his emphasis on the productive role of industry alongside that of agriculture were themes that fed directly into the political debate and were taken up by liberal and socialist reformers alike.

The restoration of 1830 gave a renewed impetus to these political debates, but the Lyons weavers' risings of 1831 and 1834 also resurrected, in a new form, the spectre of the revolutionary mob that haunted all liberal reformers in France, driving a wedge between liberalism and socialism. Comte, initially influenced by the socialist St Simon, developed his system as much as a critique of socialism as of the political regime he sought to displace. The socialism of St Simon derived very directly from the class model developed by Say, proposing to sweep away the barriers to the advance of productive enterprise and to replace the tyranny of a parasitical ruling class. However, St Simon rejected Say's faith in the market as an adequate means of regulating production, and proposed instead the functional administration of a co-operative society. Comte took many of his ideas from this scheme, believing in the necessity of completing the overthrow of the old regime and of establishing society on the basis of industrial co-operation, believing in the essential harmony of interests of the productive classes, and believing that the unfettered pursuit of self-interest would lead capital to abuse its powers and undermine social harmony and equity by economic exploitation. However, Comte rejected the socialist belief that the alternative to unfettered capitalism was political regulation, insisting that the problem was more fundamentally a moral one.

Comte formulated his system within the framework developed by Say and St Simon of the co-operation of labour and capital on the basis of the complementary contributions of each factor to production. Comte defined capital as 'every permanent aggregation of material products' arising from the 'natural excess of production over consumption'. Capital is therefore identified with Smith's 'stock', the accumulated surplus product necessary for the expansion of production and the extension of the division of labour. Thus 'the institution of capital forms the necessary basis of the Division of Labour', and capitalists 'ought to be regarded simply as public functionaries, responsible for the administration of capital and the direction of industrial enterprise. But at the same time we must be careful not to underrate the immense value of their function, or in any way obstruct its performance'. Capitalists should therefore be well remunerated for their arduous and responsible tasks. Capitalists should also be responsible for setting the wages

of the workers, 'for no others can properly estimate the value of each special service', although they should not abuse this privilege. Against the socialists Comte insisted that wages should not be seen as the recompense for labour they 'really pay nothing but the material portion of each man's labour replacing the waste invariably required by the organ, and sometimes by the function it performs', the surplus over subsistence being required to provide the fund for further accumulation (Comte, A., *A System of Positive Polity*, n.d., II, pp. 129, 134, 135; I, p. 300, II, pp. 335, 332).

Although he accepted the basic class model of capitalist society proposed by political economy, Comte rejected the economists' belief that class relations could be harmoniously regulated on the basis of the competitive pursuit of individual self-interest. Political economy 'pretends that the general laws of Material Order can be studied, apart from other laws', (Comte, *System*, II, p. 329) but the rule of self-interest creates not harmony but conflict as opposed interests clash in the market. It may be the case that the present economic relations were based on the pursuit of self-interest, but such a condition was merely transitional, a symptom of the decline in the moral regulation of social relations in accordance with earlier forms of religion and law. It was a condition that was unstable, as the new forms of moral regulation associated with the Positivist doctrines took effect, regulating the conflicts to which an inadequate moral regulation gave rise by subordinating 'self-love' to 'social-love' in order to reconcile progress with order.

Comte insisted that socialism was not the solution to the conflicts of capitalist society, but was itself a symptom. As the employers were uncontrolled in the system of 'modern anarchy', the workers fell prey to absurd Utopian schemes. Comte endorsed the critique of socialism proposed by classical political economy (indeed that of the archliberal Dunoyer), for despite their differences 'Positivists adopt substantially the strictures which they have passed upon Communism'. Communism ignores the need to accumulate capital, it ignores the need for direction and co-ordination of production, and it ignores the fact that individualistic instincts still prevail. The imperative task is not to change the existing relations of production, which are the condition for industrial progress, but to impose a moral regulation on them.

Without a sufficient concentration of material power, the means of satisfying the claims of morality would be found wanting, except at such exorbitant sacrifices, as would soon be found incompatible with all industrial progress. This is the weak point of every plan of reform which limits itself to the mode of acquiring power, whether public or private, instead of aiming at controlling its use in whosoever hands it may be placed (Comte, *System*, I, pp. 127-8).

Reform must be a moral reform before it can be political, for it is unimportant who holds power, what counts is how that power is exercised.

Comte reconciled the fundamentally harmonious character of the class-relations of capitalist production with the conflict to which the development of capitalism gave rise by developing an evolutionary theory within which the deficiencies of capitalism as it then existed were explained as the results of the process of transition from the period of the moral regulation of social relations on the basis of law and politics to the period of regulation on the basis of scientific knowledge embodied in the positivist religion of humanity. Positivism extended human knowledge from the natural to the social domain, and it is on the basis of the growth of knowledge of human interdependence that social-love would come to replace self-love. Comte made it clear in his later work that he was not offering an idealist theory according to which the progress of knowledge would determine the progress of society. He insisted that positivism subordinates intellect to instinct, the development of moral precepts resting on individual and social nature and the development of social sympathies. The growth of positivism was directly related to the growth of capital and the associated development of the division of labour within which the individual worked for others and property acquired a social character. It was on the basis of this interdependence that sentiments of altruism arose, an argument similar in many respects to Smith's *theory of moral sentiments*. Positivism hastened the advance of altruism by bringing to light the general interdependence of individuals, thus establishing the essentially harmonious character of capitalist social relations both in theory and, through the process of moral education, in reality.

Although Comte counterposed his Positivism to the religion of self-interest proposed by political economy his theory of society nevertheless owed a great deal to political economy, in particular to the work of Say. It was political economy whose theory of production defined the interdependence of the productive classes which was the basis of social-love, and it was the vulgar theory of distribution that defined the appropriate rewards for capital and labour. However Comte rejected the possibility that the harmony defined by political economy could be provided by the mechanism of which political economy avails itself. In practice capitalists use their economic and political power to seek unjustifiable gains, while workers organise in opposition to capitalists and fall prey to socialist propaganda. Thus the realisation of social harmony could only be based on the replacement of self-love by social-love that would prevent the powerful from abusing their position for their own advantage.

However social-love is not necessarily opposed to self-interest. For political economy the general well-being was achieved by each individual pursuing his or her own self-interest, and it was this coincidence that

established the moral value of self-interested action. Thus political economy established the moral duty of the individual to pursue his or her own self-interest, while establishing the futility of charitable intervention or political regulation: for political economy social-love conveniently decreed the pursuit of self-interest. Comte's critique of political economy engaged at the point at which the pursuit of self-interest is subversive of the general well-being, for this is the point at which social-love must qualify self-interest. The problem with Comte's sociology is that it had no means of specifying when that point is reached since Comte 'disregarding all useless and irritating discussions as to the origin of wealth and the extent of its possession, proceeds at once to the moral rules which should regulate it as a social function' (Comte, *System*, I, p. 131). But without such irritating discussions there was no way of determining the content of those rules and the theory was unable to get beyond a purely metaphysical doctrine of spontaneous moral harmony. Precisely the same problems confronted Durkheim's later attempt to purge Comte's positivism of its speculative elements in developing his comparable critique of Spencer's liberalism. Durkheim too contrasted the 'anomie' of pure self-interest with the moral character of the individualism of a properly regulated capitalist society, which he saw as a spontaneous development of the division of labour, to be fostered by institutional and educational reforms. Although he eliminated the religion of positivism to put more faith in institutional reform he was no more able than Comte to specify the content of that morality nor the means by which that content was elaborated socially.

Comte's speculative system was nevertheless of enormous intellectual and political importance not as an alternative to economic liberalism, but as a complement to it. It served as a means of reconciling the obvious conflicts to which capitalism gave rise with the claim that capitalism is essentially harmonious. It served as a powerful critique of socialism, emphasising the need for moral exhortation and educational reform as the means of making capitalism more humane and it served as a weapon against the conservative forces of a reactionary State and religion.

Classical political economy and the German Historical School

In Germany, as in France, liberalism still had political battles to fight, but these were concerned with building a national State, rather than transforming an existing one. The belief of the political economists that an adequate form of the State could spring spontaneously from the economic process was hardly adequate in such circumstances. Thus, while Comte criticised political economy for neglecting the moral dimension of social regulation, the

German Historical School was more concerned by its neglect of the political dimension, although the two questions were not mutually exclusive.

Germany at the beginning of the nineteenth century was still politically fragmented and economically backward. Internal trade was restricted by innumerable local tariff barriers, and industry hampered by State regulation, while agriculture remained the dominant sector of the economy. In such a context the economic doctrines of political economy had a great appeal to those seeking to break down domestic barriers to capitalist expansion. Rau performed for Germany the role that Garnier and Say performed for France, popularising and interpreting the theories of Adam Smith. Rau, like Say, emphasised the distinction between theory and policy, the latter varying with local conditions, giving liberalism an adaptability that the German situation required. The pressure for economic unification, conducted in the name of liberal political economy, culminated in the Prussian tariff reform of 1818 and the Tariff Union, that covered all Germany (excluding Austria), introduced in 1834.

However the economic unification of Germany was not sufficient to ensure the progress of German capitalism. Domestically Germany continued to be dominated politically by the landowning Junkers, while internationally the weakness of German capitalism in the face of foreign competition meant that protection and State assistance was required to foster the growth of German industry. This was the context within which the distinctive theories of the German Historical School were developed.

The main contribution of the Historical School was its development of the concept of the *national economy*. It was clear that Germany's national prosperity depended on the formation of a national State that could foster the development of industry in the face of the domestic power of the Junkers and the international economic, political and military power of Britain, France and Russia. Correspondingly, the strength of such a State would depend on the strength of the German economy. The inappropriateness of political economy in this context was one of the major factors underlying the growth of the Historical School, which situated questions of economic policy within their historical, and especially their political, context. The concept of the national economy therefore embraced much more than economic questions, incorporating also a concern with the political and institutional framework which could provide the basis of national power and prosperity. The intervention of the State in the economy was seen as an essential complement to a concern with individual well-being and was justified within the framework of a philosophy of history.

For conservatives the problem of the State was posed in the traditional romantic terms of the cultural unity of the *Volk*. However the members of the Historical School were not conservatives, but liberals, prominent among the

revolutionaries of 1848 and suffering for their liberalism. Their emphasis on the role of the State did not derive from any specially authoritarian sentiments, but from the practical concerns of German unification and of the pursuit of the German national interest against the interests of the other European powers. Thus, although the Historical School drew on the Romantic, Hegelian and Cameralist traditions, it vigorously rejected the reactionary elements in the work of such writers as Adam Muller, who subordinated the individual to the State in defining the State as an end in itself. For the Historical School the role of the State was still to be defined in liberal terms, as an essential condition for the well-being of the individual and it was in such terms that it developed its analysis of the role of the State in the reproduction of capitalist social relations.

Immediately following the formation of the Tariff Union in 1834, demands began to be pressed for the more effective protection of domestic industry by increasing tariffs on foreign imports, It was in this context that Friedrich List developed his theory of the national economy.

List argued against the cosmopolitanism of political economy that the prosperity of the individual depended on the ability of the State to pursue appropriate policies to further the national well-being. These were policies that would foster the growth of the productive forces, including not only the material capital of the nation, but also its 'spiritual capital', identified by List with the freedoms of political liberalism, In the development of the productive forces a nation would go through a series of stages, which Adam Smith had already identified, namely the savage, the pastoral, the agricultural, the agricultural-manufacturing and the agricultural-manufacturing-commercial stages. This was a progressive development the height of which would be reached with the predominance of trade and manufacture. A nation at a superior state would be more powerful and more prosperous than a nation at an inferior stage, so free international trade would permit it to prevent the more backward nation from advancing in the face of foreign competition. Protection would be required to enable Germany to emerge as a fully fledged industrial power that could hold its own in the world market. The liberal cosmopolitanism of classical political economy was, within this context, simply the abstract expression of the British national economic interest in gaining free access to foreign markets to prevent the emergence of foreign competitors. The more backward position of German industry required a different political economy.

List's theory of stages very clearly expressed the interests of German industry and commerce both domestically and internationally. While economic liberalism might be appropriate to a more advanced stage of capitalist development, in the German context it was the condition for the continued dominance of foreign capital. On the other hand, State regulation

continued to be distorted by the economic and political dominance of the landowning class, which List's theory identified with an inferior stage of capitalist development.

The conflict between the politically dominant Junkers and the economically ascendant bourgeoisie came to a head in the revolutions of 1848. The defeat of the revolutionary forces did not, however, imply the subordination of the bourgeoisie to the Junkers, but rather their reluctant accommodation to Junker rule, complemented by a Junker recognition of the bourgeois economic interest. The need of the State for a strong economic base, and the development of capitalism in the German countryside, provided the basis for a pragmatic resolution of the divisions within the dominant class in Germany as in England, a resolution provisionally achieved under Bismarck. Although the studies of the Historical School retained, in a rather empty rhetorical form, the liberal spirit of 1848, the main concern came increasingly to be with the social conflict associated with the development of German capitalism, not only the direct conflict between capital and labour, but also the social and political dislocation threatened by the destruction of the petty producers.

Roscher, Hildebrand and Knies, the older generation of the Historical School, all took up List's emphasis on the centrality of the concept of the national economy formulated within an evolutionary theory that sought empirical laws of development in order to situate German economic and social development within a national and historical context. However, their fear that the subordination of economic activity to self-interest would give rise to growing class polarisation led them to criticise more sharply the economists' preoccupation with purely economic motives. 'Industrial feudalism' and the growth of an agricultural proletariat would foster the growth of socialism and so had to be restricted by the State. They therefore laid an increasing emphasis on the need to consider the pursuit of economic goals within a broader social context, within which self-interest would be subordinated to morals, religion, custom and standards of propriety. The development of society could not be reduced to its economic development, for its moral development was equally important. Nor could policy be subordinated solely to economic ends, for the State had a primary concern with the conditions of social integration and national unity. Thus the Historical School became increasingly critical of any attempt to formulate general economic laws, or general laws of historical development, coming to emphasise the uniqueness of time and place and the necessarily pragmatic and empirical orientation of economic studies.

While Roscher followed List in regarding classical political economy as a theory appropriate to a particular stage of capitalist development, stressing only the need to temper the classical doctrines with a concern for the national

particularities of historical development, Hildebrand and Knies carried the criticism of political economy further, arguing that history did not simply introduce qualifications into the laws of political economy, but rather that political economy had to be reformulated on an historical foundation. Hildebrand continued to believe that it was possible to formulate historical laws, distinguishing the phases of natural economy, money economy and credit economy. In the latter, access to credit would give workers and petty producers parity with capitalists and so would eliminate class conflict. Knies went further still, condemning the labour theory of value and the utilitarian orientation of political economy for playing into the hands of socialism. Although he believed in progress, Knies claimed that it was a moral rather than an economic category, so that laws of development were always moral laws that could not be formulated quantitatively and which could only provide a basis for analogical comparison.

Despite their criticism of political economy the older generation of the Historical School continued to fall back on its doctrines when convenient, supplementing them with an emphasis on the ethical orientation of economic activity, and with a plethora of historical illustrations demonstrating the divergence between theory and reality. Despite the claim of the Historical School to be counterposing reality to theory, a claim that became even more insistent among the younger generation, the Historical School nevertheless formulated its investigations within the framework of a particular conception of society. Although it rejected the economic laws of classical political economy, its essential framework was still that of vulgar economy, being based on the theory of production that conceptualised the fundamentally harmonious character of capitalist social relations in terms of the co-operative division of labour between agriculture and industry land, labour and capital, and on the vulgar theory of distribution that denied any necessary conflict of interests between capital and labour.

That this is indeed a particular conception of capitalist society is brought out by counterposing to it the conception developed by Marx in his critique of political economy, a critique that established that this apparently commonsensical view of capitalist society was in fact a speculative, metaphysical, and ideological conception in treating the particular historical form of capitalist relations of production and distribution as an expression of the technical characteristics of the division of labour. It was a conception that appeared to accord with commonsense only because *bourgeois* commonsense was ensnared in the illusions of the trinity formula:

The more the vulgar economists in fact content themselves with translating common notions into doctrinaire language, the more they imagine that their writings are plain, in accordance with nature and the

public interest, and free from all theoretical hairsplitting. Therefore, the more alienated the form in which they conceive the manifestations of capitalist production, the closer they approach the nature of common notions, and the more they are, as a consequence, in their natural element

wrote Marx of Roscher (*Theories of Surplus Value*, III, p. 503). For all its historicism, the Historical School, like Comte's sociology, rested on the same metaphysical ideological foundations as political economy.

The Historical School, like Comte, produced a powerful critique of the preoccupation with self-interest of classical political economy, indicating the need for moral and political regulation to ensure the reproduction of capitalist social relations. However the critique was also limited, in attributing the conflict endemic in capitalism to the self-interested orientation of economic activity that is an essential characteristic of capitalist social relations. Thus, like Comte, the Historical School had no coherent theory that could specify the limits of self-interest and define the content of the necessary moral and political regulation. Both schools of thought rested on a speculative philosophy of history that postulated the essential harmony of capitalist relations of production which they combined with a purely pragmatic approach to the solution of particular social and political problems.

This is to deny neither the practical nor the theoretical importance of Comte's sociology or of German historicism. Both took the threat of social dislocation much more seriously than did classical political economy, recognising the need for the moral and political regulation of social relations that the classical economic laws excluded. This readiness to recognise the need for reform and this emphasis on the institutional framework of capitalism, made the work of Comte and the Historical School very attractive as liberal optimism declined and political economy collapsed. However their inability to specify the content of moral and political regulation, and so to set limits to the possibilities of reform, proved a fatal weakness.

The decline and fall of classical political economy

The theory of society within which classical political economy formulated its economic laws was appropriate to the political and constitutional debates that arose out of the struggle in Britain for political supremacy between the established ruling class that principally represented the landed interest, and a bourgeoisie, growing rapidly in strength and number, that was principally associated with the interests of industrial capital. These struggles were no longer between emerging capitalist enterprise and a feudal aristocracy, but took place within the framework of an established capitalism, and so could

appropriately be conducted within the framework of a theory of capitalist society.

The end of this particular phase in the political development of British capitalism was marked by the passing of the Factory Act of 1844, the repeal of the Corn Laws in 1846 and the collapse of the Chartist movement after 1848. The 1850s and 1860s were a period of realignment of the social and political relations between the classes and, correspondingly, of the terms within which capitalist society was considered, the class model of society proposed by political economy being progressively diluted as class boundaries were increasingly blurred.

The constitutional, political and legal reforms of the 1830s and 1840s and the increasing mobility of capital had considerably softened the opposition between the capitalist and landed interests so that land was becoming merely a form of capital, while capitalist wealth gave access to land and to political privilege. The economic distinction between rent and profit was progressively less adequate as the basis for distinguishing between discrete social classes. The theory of rent, correspondingly, lost its political centrality, becoming the basis on which some radical reformers proposed the taxation or even the nationalisation of land without necessarily implying any constitutional transformation.

While land was being progressively assimilated to capital, a more complex social differentiation was emerging lower down the social scale. On the one hand, a specifically capitalist middle class of shopkeepers, petty producers and professional people was growing fast and seeking to establish its own place in capitalist society. On the other hand, a clearer differentiation was beginning to develop within the working class, particularly between the skilled and unskilled, the respectable and the rough. This increasing complexity led to a blurring of the sharp class boundaries of the classical model and to the ideological resurgence of models of a hierarchical gradation of rank and status that corresponded not only to economic conditions, but also to personal moral qualities and educational achievements.

This hierarchical model provided a basis on which the priority of individual over collective, and moral over material, achievements could be asserted. Political economy still played a central role in establishing the impossibility of a general improvement in the material condition of the working class, and so of the alteration of the existing class structure. It therefore continued to constitute the bastion of the ideological defence of the established order. However, a more fluid social structure provided the opportunity to preach the possibility of individual self-improvement within the hierarchy and the means to achieve such self-improvement was by moral and intellectual elevation. Such elevation also had the advantage that through education in the truths of political economy the working-class would come to

appreciate the inviolability of the existing social order and so would not fall prey to socialist agitation. The message of self-help was conveyed through the popular press and improving literature, through political propaganda and from the pulpit, through educational institutions and the public libraries. Even trade unionism, when properly conducted, had a part to play, fostering the moral qualities of the working-class by making provision through mutual benefit funds for sickness, unemployment and old age and by providing workers' education. The working class was no longer an anonymous mass to be feared, but a collection of individuals to be enlightened and assimilated to the established order. Thus the emphasis on the moral qualities of the individual displaced the political economists' emphasis on class as the determinant of the individual's fate.

This growth of a meritocratic individual is above all expressed in the social philosophy of Herbert Spencer. Spencer conceptualised capitalist society within the framework of a speculative philosophy of history that presented *laissez-faire* capitalism as the culmination of the evolutionary process. Society was conceived on the model of the division of labour, expressed within an organic analogy, understood as the interdependence of the functionally differentiated parts of an increasingly complex whole, whose development could be understood within the framework of a theory of cosmological evolution. He saw the development of society as progressive, manifesting the fundamental cosmological law of the increasing differentiation and integration of functions, and the mechanism of evolution as the quasi-Darwinian competitive struggle for existence in which 'survival goes to the fittest'.

Spencer saw capitalism as the stage at which industry finally replaced war as the basis of society. This development was marked by the progressive differentiation of the economy from the State and the subordination of the State to the economy, instead of the subordination of the economy to the State characteristic of a military society. Within the economy this evolution was marked by the development from slavery, through serfdom, to wage-labour. The differentiation of capital and wage-labour corresponded to the differentiation of functions within production between capital, whose function was the regulation of labour, and wage-labour, whose function was to conduct the specialised tasks defined by the division of labour under the supervision of capital. More fundamentally the distinction between labour and capital was simply an aspect of the functional differentiation of mental and manual labour. Economic activity existed within a wider co-ordinating structure defined by the family, political and ecclesiastical organisation, the system of law and the cultural institutions of language, knowledge, morals and aesthetics. Each part of the whole had its part to play in the functioning of the system, and each part was adapted to its function through the

evolutionary process governed by natural selection. The complexity of the system, and the ultimate beneficence of the law of evolution, tended to militate against any attempt to intervene consciously to mitigate social evils, for any such attempted reform was as likely to interrupt as to accelerate the course of progress. Thus Spencer came to recognise that wage-labour 'amounts in practice to little more than the ability to exchange one form of slavery for another', but he did not propose any remedy, merely observing that 'it seems that in the course of social progress, parts, more or less large, of each society are sacrificed for the benefit of society as a whole' (Spencer, H., *Principles of Sociology*, Williams and Norgate, London, 1896, Vol. 3, p. 516).

Spencer's social philosophy was in one sense a generalisation of the optimistic perspectives of political economy, extending the belief in the inevitability of progress from the economy to all social institutions and glorifying the achievements of the mid-Victorian bourgeoisie. Spencer took for granted the virtues of economic liberalism and the impossibility of a general improvement in the condition of the working-class, while his theory of evolution depended as much on the theory of the division of labour and of the beneficent operation of the market as it did on biological organicism and the Darwinian theory. His theory was essentially a completion of the ideology of political economy, that reformulated its optimistic conclusions within the framework of a speculative philosophy of history presenting the existing order as the culmination of history and the realisation of rationality. The philosophy rested entirely on the plausibility of the application of the biological and economic analogy to society as a whole, so that Spencer's works amounted to little more than compendious illustrations of the fundamental cosmological principles of evolution. However, his work was enormously influential in England and the United States until the end of the century, and has inspired successive waves of optimism since. Moreover in his emphasis on the individual, in his demotion of the concept of class and in his emphasis on the co-ordination of the division of labour rather than on accumulation his work prefigured and inspired developments that were to come.

Although the individualism of Spencer's social philosophy apparently conflicted with the class model on which political economy was based, and while the growing emphasis on moral improvement, expressed by evangelical, positivist and liberal reformers, conflicted with the uncompromising materialism of political economy, there was nevertheless no other rigorous basis than political economy on which to defend the truths of liberalism. So long as there was a political commitment to *laissez-faire* and a political resistance to the claims of the working-class political economy had

an ideological function to perform, however far from reality its categories might appear to be.

John Stuart Mill showed how political economy could accommodate these developments. Mill espoused more and more reformist causes without his reformism undermining his confidence in the ultimate validity of the truths of political economy. Those truths may have been abstract, but they were nevertheless constraining:

Howsoever we may succeed in making for ourselves more space within the limits set by the constitution of things, those limits exist; there are ultimate laws, which we did not make, which we cannot alter, and to which we can only conform. (Mill, J.S., *Principles of Political Economy, Collected Works*, RKP, London., Vol. II, p. 199)

Within this framework Mill was ready to concede that values other than those of material interest might prevail; that moral, educational and cultural improvements should be fostered, even at the expense of economic gain; and that the State might intervene to protect the ignorant and the weak, in providing a more just relationship between effort and reward by restricting the power of monopoly, and by the taxation of inherited wealth and unearned incomes.

The 1850s had been a period of unprecedented prosperity and social peace that appeared completely to vindicate the liberal optimism. However towards the end of the decade, changes began to take place that again gave the concept of class an ominous ring. These were the developments that led up to the 1867 Reform Bill. The Parliamentary Reform Act of 1832 had made limited concessions to the bourgeoisie, while retaining the privileges of the landed interest through its domination of the House of Lords and the County seats in the Commons. Social changes over the following three decades softened the antagonism between big capital and the landed interest, but many of the political and economic privileges of landed property remained intact, and the aristocratic domination of politics persisted. After the repeal of the Corn Laws and the defeat of Chartism some kind of parliamentary reform was inevitable, so what was at issue was the pace of reform and the shape that it would take.

The reform movement was predominantly extra-parliamentary and comprised an alliance of manufacturing capital, the middle-class and the organised elements of the working-class. After an abortive initiative in the early 1850s the reform movement got under way towards the end of the decade. However, the essential condition for success was the suppression of the differences between the working class and Radical elements and the

acceptance by the working-class of middle-class leadership. The basis of this acceptance was the growth of trade unionism.

Trade unionism enjoyed a very rapid revival in the wake of the economic crisis of 1857–8, which precipitated demonstrations by the unemployed in London. The London builders' strikes of 1859–61 inaugurated a nationwide agitation for a shortening of the working-day through which working-class organisations proliferated rapidly. The Sheffield 'outrages' of 1861–2, in which trade unions tried to impose collective discipline on the workers, revived fears of the unions and initially hardened resistance to reform, but on the other hand sharpened the contrast between irresponsible unionism and the respectable self-improving trade unionism exemplified by the Amalgamated Society of Engineers. The reform movement was given an enormous boost by the victory of the North in the American Civil War, and of the Polish and Italian Revolutions in 1863 and 1864. Industrial unrest increased in 1864 and 1865, most dramatically with the strike and lock-out of the ironworkers.

These industrial developments were closely connected with the reform agitation, for the trade unions were developing within a hostile legal environment. Thus trade unionists had immediate cause to seek parliamentary reform in order to remove the restrictive laws and to force the introduction of enabling legislation. In such circumstances, and most urgently with a legal decision of 1867 that attacked trade union funds, the organised working-class was prepared to abandon its demand for universal manhood suffrage and accept more limited reforms proposed by the Radical leadership. On the other hand, parliamentary resistance to effective reform forced the Radicals to rely increasingly heavily on the working-class movement. Eventually Radical pressure in the face of a divided opposition in parliament combined with the threat of the growing extra-parliamentary agitation forced reform on an unwilling parliament.

The growing strength of the trade unions and their active political involvement in the reform movement, were of fundamental significance for political economy. On the one hand, whereas the rhetoric of class had played a major role in the agitation of 1832, the reform movement of the 1860s was concerned above all to play down the class issue. The extension of the franchise was not intended to admit the working-class to the constitution, but to bring into the electoral game those who exhibited moral reliability and political responsibility, qualities measured by respect for property and the constitution and found among the more affluent, and correspondingly improved, sections of the working-class, but which were defined in moral and not in economic terms. Citizenship, and not property, was to become the basis of political representation. The extension of the franchise was seen as the necessary framework for political alliances that would transcend class,

and so as the only viable alternative to class struggle. The dangers of refusing such an extension were clear:

The struggle may cease in the end to be one between parties in Parliament and become one between classes, the class represented by the House of Commons, on the one side, and the class represented by the trade unions on the other... The true statesman would almost rather drag the working men within the pale of the constitution by force than suffer them thus to organise themselves into a separate community outside it. (Godwin Smith, *Morning Star*, 24 July 1866)

On the other hand, despite the political economists' inviolable laws, the working-class persisted in pressing its independent interests through its own class organisations. In 1832 and again in 1846 the radical middle-class had been able to mobilise sections of the working-class without making substantial concessions to the latter. However in each case the 'betrayal' of the workers' demands by the Radicals was followed by a short burst of intense working-class political activity. By 1867 the working-class was better organised and was more wary of the terms on which it forged alliances. If Radicals and Liberals were to secure working-class support for reform, substantial concessions would have to be made, particularly in relation to trade union rights, and so the existence of independent working-class interests would have to be recognised, whatever political economy might say. If this was the case in the reform movement, it was even more the case after reform, when the existing Parties found themselves competing for the electoral support of the enfranchised sections of the working-class. Thus the reform movement, and the subsequent admission of sections of the working-class to the franchise, implied the acceptance of the legitimacy of the aspirations of the organised working-class and recognition of the need to establish a framework within which trade unions could operate to further the collective interests of workers. Thus class conflict was assimilated into the constitution by separating the political activity of the working-class, channelled through the electoral system, from its economic activity, conducted through the trade unions. Political reform was followed almost immediately, and quite inevitably, by trade union reform.

The recognition of independent working-class interests and of the right of workers to organise themselves to pursue those interests within the limits of the constitution undermined the most fundamental principle of political economy, the law of wages, by which it had denied the existence of any such interest for half a century. The law of wages was already under considerable pressure. On the one hand, the Malthusian law of population had to be reconciled with the fact that there was no clear empirical relationship

between level of income and size of family. Indeed the poor tended to have larger families than those with more money. Thus moral qualities rather than economic condition appeared to be the main determinant of population growth. On the other hand, the wages-fund doctrine was contradicted empirically by the existence of considerable and persistent wage-differentials, while ideologically it already conflicted with the doctrine of self-help, for the latter stressed the relationship between the fate of the individual and his or her moral qualities, while the law of wages stressed the levelling effect of competition so that the fate of the individual was inexorably tied to the fate of the class: there is no point in practising self-help and moral restraint if others are breeding profligately, increasing the supply of labour, and dragging down wages for all. Mill and Cairnes had patched the wages-fund doctrine up with their 'theory of non-competing groups', but the law of wages was on such shaky ground by the 1860s that in the face of the challenge of reform, it simply collapsed, together with classical political economy.

The wages-fund doctrine was demolished in England in 1868 by Cliffe Leslie and Fleeming Jenkins. In 1869 Thornton published his book *On Labour* and Mill, in his review of the book, conceded the fallaciousness of the doctrine, recognising that

there is no law of nature making it inherently impossible for wages to rise to the point of absorbing not only the funds which he [the employer] had intended to devote to carrying on of his business, but the whole of what he allows for his private expenses, beyond the necessaries of life. The real limit to the rise is the practical consideration [of] how much would ruin him, or drive him to abandon the business, not the inexorable limits of the Wages Fund. (Mill, J.S., 'Thornton on labour and its claims', *Collected Works*, RKP, London., Vol.V, p. 645)

Although Mill reissued his *Principles* in 1871 with only minor alterations and Cairnes persisted through the 1870s, and although the wages-fund doctrine has been repeatedly resurrected as a weapon against trade unionism, classical political economy was to all intents and purposes killed by this admission. Without the theory of the wages-fund it had no law of wages. Without the law of wages it could not pretend to have a theory of profit. Meanwhile its theory of rent was being increasingly used to justify the taxation and even the expropriation of landed property. Classical political economy could hardly provide an adequate theory of capitalist society without being able to offer a theory of distribution. 'It was the labour question, unsolved by that removal of restrictions which was all deductive political economy had to offer, that revived the method of observation.

Political economy was transformed by the working classes.’ (Toynbee, A., ‘Ricardo and the Old Political Economy’, in *Toynbee’s Industrial Revolution*, David and Charles, Newton Abbot, 1969, p. 11).

Such residual appeal as political economy did have was soon eroded by the experience of the Great Depression that set in at the beginning of the 1870s. Growing foreign competition precipitated demands for the State to intervene to strengthen British capital at home and abroad. The ‘law of international exchange’ was forgotten as the cry for ‘Fair Trade’ and imperialist annexation replaced the classical demands for ‘Free Trade’ and colonial freedom. The law of free competition was forgotten as cartels and monopolies arose and State and municipal enterprises were formed to organise and finance the railways, coal, gas and public utilities. The law of self-interest was forgotten as growing concerns about the physical, moral and educational standards of the working-class motivated increasing public provision and regulation of standards of housing, education and public health. Political economy had no way of dealing with such questions.

The *a priori* reasoning of political economy, orthodox and unorthodox alike, fails from want of reality. At its base are a series of assumptions very imperfectly connected with the observed facts of life. We need to begin with a true picture of the modern industrial organism, the interchange of service, the exercise of faculty, the demands and satisfactions of desire (Booth, C., *Conditions and Occupations of the People of Tower Hamlets*, Edward Stanford, London, 1886–7, p. 7).

The ideological roots of the marginalist revolution

The changing economic, ideological and political circumstances of the 1860s and 1870s put classical political economy to the test and found it wanting. A new theory of capitalist society was urgently needed that could respond to the practical and ideological demands of a new era.

The first reaction to the collapse of political economy in Britain was to adopt a pragmatic approach that could give a truer picture of the ‘observed facts of life’. What was needed was a theory that could look beyond the pursuit of self-interest to set economic relations within their institutional, political and moral context, and replace the dogmatism and abstraction of political economy with a more flexible and more realistic approach. What was needed was ‘a scientific sociology comprehending true economic doctrine, but comprehending also a great deal more’ as Ingram argued in his enormously influential presidential address to Section F of the British Association in 1878. Spencer had already indicated the importance of non-economic institutions in his sociology and Spencer continued to be

influential. However his optimism became less and less appropriate as the need for social reform became more pressing. Thus there was a turn to foreign sources, and above all to France and Germany, to find theories that could fill the gap. Thus Ingram was a follower of Comte, while Arnold Toynbee and Thorold Rogers drew most heavily on the Historical School. Subsequently LePlay was a major influence. His theory that stressed the importance of the family and community in achieving social integration, stimulated a mass of family-oriented poverty studies and community investigations, and gave British sociological reformism a distinctive emphasis on the use of social policy to mould the family and the use of town planning to mould the community.

In similar circumstances in Germany the younger generation of the Historical School, dominated by Gustav Schmoller, established the *Verein für Sozialpolitik* in 1873, which built on the earlier tradition. The *Verein* sought to stimulate academic research that could serve as a guide for reform, and in its early years played a central role in the reform movement. The emphasis of the *Verein* was on discovering the means to ameliorate or abolish class conflict. This was recognised to involve assigning a high priority to economic expansion, but the *Verein* insisted that questions of economic policy should nevertheless be subordinated to ethical and political considerations, thus economic development should be regulated in accordance with national political needs, and in particular the strengthening of the State domestically and internationally.

In France LePlay had some following, but he was eclipsed by the rise of Emile Durkheim, who founded the French school of sociology. Durkheim drew heavily on Comte, Spencer and the German Historical School to develop a comparable evolutionary theory within which social disorder was attributed to a failure of moral integration that had caused selfishness and ignorance to displace a properly regulated moral individualism (an individualistic reformulation of Comte's social-love). Such moral integration was to be achieved by the formation of associations, for example of producers and consumers, within which would be generated solidaristic sentiments based on the moral appreciation of interdependence. The Durkheimians also placed considerable emphasis on the development of a national system of secular education.

The last quarter of the nineteenth-century was a period in which there was a considerable cross-fertilisation of ideas throughout Europe as liberalism confronted the challenge posed by the institutionalisation of class conflict associated with the growth of an organised working-class, on the one hand, and the centralisation and concentration of capital, on the other. Similar schemes for the amelioration of the condition of the working-class; the regulation of capital, the protection of petty producers and the conciliation of

class conflict were proposed throughout Europe. These schemes were formulated within a very similar theoretical framework, inspired largely by Comte, the German Historical School and, rather ambivalently, Spencer. The concerns of the last decades of the nineteenth-century were more pragmatic than had been those of the earlier writers and the speculative evolutionary schemes were largely displaced by a greater emphasis on detailed empirical investigation, but the essential features of the earlier theories were retained. We can sum these up under four headings.

First, the social theories of the late nineteenth-century stressed the need for the moral and political regulation of capitalist social relations to moderate the conflicts that arose out of the unfettered pursuit of economic interest. Thus the radical individualism of political economy was tempered by a concern with the needs of society or of the nation, imposed morally or politically on the individual. Political economy was criticised for its abstraction and the distinction between economic and moral questions was rejected. The social relations of production of a capitalist society were not defined by the conflicting economic interests of opposed classes, but had to be seen within a broader context in which class conflict was a sign of a failure of proper social regulation.

Second, although these theories uniformly stressed the socio-historical character of capitalist social relations, against the economic reductionism of political economy, this historical relativism was quite different from that of Marx's critique of political economy. The specific historical character of capitalist social relations was conceptualised within a naturalistic evolutionary framework that governed the development of the relations of production, only distribution relations being subject to historical change. This separation of relations of distribution from relations of production had its origins within political economy, being formulated first by Say and subsequently adopted by most political economists as the framework within which the economic laws of capitalist society were developed. John Stuart Mill stressed the historical variability of the laws of distribution, as opposed to the laws of production:

The laws and conditions of the production of wealth, partake of the character of physical truths. There is nothing optional, or arbitrary in them... It is not so with the Distribution of Wealth. That is a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like (Mill, J.S. *Principles*, p. 199).

Thus Mill distinguished petty proprietorship, slavery, *métayage*, cottagers, wage-labour and co-operation as different forms of the relations of distribution. Richard Jones, in relation to India, and Sir Henry Maine, in

relation to Ireland, had likewise developed a framework within which to understand the changing forms of property that underlay different forms of the relations of distribution.

As we have seen, Comte and the German Historical School formulated their evolutionary theories within the framework of the classical theory of production. Relations of production were conceptualised on the basis of the development of the division of labour, which imposed mutual co-operation and interdependence, and it was on this basis that they conceptualised the essential harmony of capitalist social relations. Their differences with political economy arose not in the theory of production, but in the theories of distribution and exchange. It was to the laws of distribution and exchange that the sociologists and historicists objected, not to the laws of production, whereas it was above all to the laws of production that Marx directed his critique, seeing the laws of distribution and exchange as forms of capitalist social relations of production. Moreover it was essentially on the basis of the laws of production that they asserted the priority of interdependence and social harmony over the conflict of interest that appeared when self-interest alone governed exchange. They therefore sought reforms that would regulate this conflict of interest to bring the social relations of distribution and exchange into harmony with the social relations of production. Finally, the appropriate distribution that would emerge from this regulation would be that determined according to the principles of vulgar economy, according to which the just reward accruing to each factor of production would correspond to its contribution to production, on the one hand, and to the sacrifices made by its owner, on the other. Whereas for vulgar economy such factor-rewards would emerge spontaneously through the free play of the market, for the critics of political economy the unregulated operation of the market distorted such a socially just distribution, as self-interested parties abused their economic and political power to take undue advantage of the misfortune of others. Thus moral and political regulation was required to achieve the socially just distribution corresponding to the harmonious interdependence of the factors of production. Not without reason were Schmoller and his associates referred to as the 'socialists of the chair', while in England the Comteans were among the staunchest defenders of trade unionism and in France the Durkheimians were closely associated with socialists. However for all these groups social reform, far from being a step towards the achievement of socialism, was a vital means of staving off the socialist threat.

The third essential feature of the theories with which we are concerned was their emphasis on the need for empirical research. On the one hand, they stressed the importance of comparative and historical study as the only proper basis on which to develop evolutionary laws, thus replacing, so they

believed, the speculative philosophies of history of the older generation by empirically based historical schemes. On the other hand, contemporary empirical investigation was required to measure the divergence between reality and the theoretical ideal of a just, harmonious and prosperous society so as to offer guidelines for reform. Thus empirical research was conducted not naively, but on the basis of a particular conception of capitalist society which defined the normal condition of such a society as one of justice and social integration. Injustice and social conflict were considered to represent departures from the normal condition, the consequence of evolutionary lags that were a part of the process of social change from old, paternalistic, forms of social regulation to new, co-operative, forms. Comparative and historical research was directed at vindicating this conception of capitalist society by identifying the different historical forms of social integration and by drawing the lessons from history of the unfortunate consequences of the unregulated exercise of economic and political power. For all its empiricist criticisms of speculative Philosophies of history, not least directed at Marxism, this approach did not get away from speculative evolutionism, for empirical investigation could never contradict the claimed normality of social integration. Empirical investigation, that is, specifically directed to the discovery of conflict, injustice and distress, in no way invalidated the conception of society as essentially harmonious, but merely pointed to the failure of evolution to complete its course. Empirical investigation explored the deviations of reality from the speculative ideal not in order to test the evolutionary theory empirically, but to evaluate reality in the light of the ideal. Instead of adapting theory to reality, the task of empirical investigation was to provide the basis on which social reform could make reality conform to the theory.

The fourth respect in which late nineteenth-century social thought built on the earlier traditions was in attempting to incorporate a concern with the political and moral regulation of social relations into a liberal framework. Thus, unlike conservative thinkers, they did not see either the State or morality as ends in themselves. -Their critique of political economy was a critique from a liberal individualist direction, pointing to the ways in which the abuse of economic power and the socially conditioned existence of ignorance and irrationality enabled some individuals to intrude on the freedom and opportunities of others. Thus the moral and political regulation of social relations and the development of an appropriate institutional framework within which such regulation could take place, were seen as an essential presupposition for the harmonisation of interests of the individual members of society. For example, Durkheim, far from being a conservative or a collectivist, was essentially seeking a sociological reformulation of social contract theory that could legitimate a greater degree of social and

political regulation than had been appropriate to the 'age of reason' or the age of utilitarianism'. The fundamental theoretical problems which such an attempt confronted were those of establishing the relationship between the individual interest and the general interest and of identifying the point at which the unrestrained pursuit of self-interest became subversive of the general interest and so subject to regulation. We have seen that classical political economy had such a theory, expressed in its economic laws that set very narrow limits to social intervention. Vulgar economy and Herbert Spencer likewise defended a regime of *laissez-faire* on the basis of little more than liberal optimism. We also saw that Comte and the German Historical School had no means of rigorously establishing the limits of *laissez-faire*, nor, correspondingly, the possibility and limits of intervention. The sociology of Durkheim, the investigations of the Historical School, British empirical sociology and Oxford idealism equally rested on ultimately arbitrary foundations. Thus in their theories we find a constant dualistic tendency with the individual, on the one hand, and the State or society, on the other, appearing as complementary ends without any rigorous theory of the relations between the two. This absence had enormous practical consequence, for it meant that there was no principled basis on which to evaluate reforms. Conflict, injustice, poverty and distress could be discovered by empirical investigation, and *ad hoc* reforms proposed to deal with them, but how was the reformer to know what would be the effect of such reforms, how would the reformer know that the reforms might not exacerbate rather than solving the problem ?

Spencer repeatedly railed against vain attempts to treat social problems on the basis of an estimate of 'immediate benefits and costs' rather than on the basis of a more profound investigation.

The politician will spend his energies in rectifying some evils and making more — in forming, reforming and again reforming — in passing acts to amend acts that were before amended; while social schemers will continue to think that they have only to cut up society and rearrange it after their ideal pattern and its parts will join together again and work as intended (Spencer, H. *Principles of Sociology*, Williams and Norgate, London, 1896, Vol. 3, p. 318).

Spencer believed that sociology was a 'moral science' whose task was to

deduce, from the laws of life and the conditions of existence, what kinds of actions necessarily tend to produce happiness, and what kinds to produce unhappiness. Having done this, its deductions are to be recognised as laws of conduct; and are to be conformed to irrespective of

a direct estimation of happiness or misery. (Spencer, H. *An Autobiography*, 2 Vols, Williams and Norgate, London, 1904, Vol. 2, p. 88).

Spencer's liberal optimism could hardly provide a guide, except for the eugenicists, but the rapid proliferation of proposals for reform in the last decades of the nineteenth-century made it increasingly apparent that some more rigorous theory was needed that could establish the possibilities and limits of reform and provide a means of evaluating alternative proposals. Foremost amongst the problems, once again, was the problem of labour.

With the collapse of classical political economy the right of the working-class to organise in trade unions in order to pursue its economic aspirations was widely recognised. Historicism and sociology were brought into play to underscore the importance of trade unionism in rectifying the imbalance of power in the market between labour and capital and in establishing a framework within which harmonious class relations could be established. Thus in the match-girls' strike of 1888 and the London dock strike of 1889 middle-class reformers vied with socialists to endorse the workers' claims and to subscribe to their support-funds. But how far should such claims go? What would be the effect of an increase in wages for the workers, for their employers and for the economy as a whole? At what point does trade unionism become an intolerable violation of the freedom of employers or of individual workers, rather than an essential agent of social justice? How should the State respond to the agitation to limit further the length of the working-day? How should it respond to demands to alleviate the condition of the unemployed? How should it respond to demands for social insurance; for the provision of public housing, for the establishment of municipal enterprises and the taxation of land and inherited wealth? All these were questions to which political economy had been able to give clear answers, even if those answers were no longer acceptable. However a reformulation of political economy was imperative as demands for social reform and for workers' rights proliferated and escalated.

The need for a more rigorous theory was not only practical, but also ideological. With the development of monopoly capital and of imperialism the State was increasingly compelled to intervene domestically and internationally on behalf of capital, threatening intensified class struggle at home and colonial and inter-imperialist wars abroad. On the other hand, the rise of socialism carried with it the alternative threat that the State would become the agency through which the organised working-class would nationalise capital and land. The socialist threat, on the one hand, and the resistance of monopoly capital, on the other, showed up the inadequacy of a pragmatic approach to social reform and produced an urgent need for a

theory that could both recognise the necessity of reform and also set limits to such reform.

6

The Marginalist Revolution: Economics and Sociology

The marginalist revolution

The *marginalist revolution* was pioneered by three writers who initially worked independently of one another, but whose work had many convergent features. They were Jevons in England, Walras in Switzerland and Menger in Austria. The revolution is conventionally dated at 1870, but its roots go back into the 1860s and the new methods of economic analysis did not achieve general recognition until the 1880s and 1890s. It is therefore necessary to distinguish between the achievements of particular individuals in pioneering new techniques of analysis, on the one hand, and the adoption of the new system of economics based on the application of those techniques, on the other. The particular motives of Jevons, Walras and Menger in developing the new approach did not necessarily coincide with the reasons for its achieving sweeping, if belated, recognition. Thus the initial problems that Jevons, Walras and Menger set themselves were apparently rather idiosyncratic and could not immediately be located within a general intellectual movement. On the other hand, the fact that three thinkers independently raised similar questions and reached very similar conclusions should indicate that their concerns were not as devoid of general significance as might appear at first sight.

Although the origins of the marginalist revolution were contemporaneous with the final collapse of the system of classical political economy the two sets of events were not directly connected. Of the founding fathers, only Jevons defined his project directly in opposition to classical political economy. Walras worked within the french tradition of utility theory going back to Say and Smith, while Menger saw his task as being one of bringing some rigour into the German tradition of 'vulgar economy'. Moreover, as we saw in the last chapter, classical political economy was not immediately replaced by the method of marginal analysis. For about two decades the historical and the empirical methods were dominant.

The new methods of analysis were not introduced as a means of correcting the deficiencies of the classical system, but rather arose out of the attempt to answer new questions. The delay in acceptance of the new methods is to be

explained largely by the fact that these new questions only became central political issues some twenty years after they were first raised by the pioneers. Technically the marginalist revolution is defined by a new method of economic analysis which applies the calculus to the problem of the determination of prices. The new method of analysis did not involve any substantial technical innovations, for once the question of the determination of prices in the market had been posed as a topic for rigorous investigation the techniques required for solving the question fell almost immediately to hand. The pioneers all posed the question within the framework of a theory of utility and this in many ways made their approaches to the question, and their solutions, extremely cumbersome. However the essence of the problem, and of its solution, was relatively straightforward. Thus the methods of calculus had been applied to economic problems before, by such thinkers as Gossen and Cournot, and to analogous problems by Bernoulli, but the earlier attempts had been ignored, not because of a blindness to genius, but because the questions that were posed did not at the time seem particularly significant.

The break between classical political economy and marginalism is marked by a change in the kind of questions asked by economists. For classical political economy the central issues were those of the constitutional order within which capitalism could best develop to the advantage of the nation as a whole and that of the relations between the classes proper to such a development. This led classical political economy to pose questions of distribution within the framework of a macroeconomic theory of growth. Within such a framework the rigorous determination of individual prices was of little concern so long as the determination of prices could be assumed not to conflict too seriously with the theory of distribution. For the marginalists this order of priorities was inverted, and the central concern became one of developing a rigorous theory of price determination.

What was new in the concerns of the marginalists was not simply a concern with prices, for economists had always sought to explain the determination of prices as part of their enterprise. What the marginalists introduced was an emphasis on the need for a *rigorous* theory of price determination. Within classical political economy the determination of prices was subordinate to the problem of distribution and prices were the by-product of the theory of distribution. Once wages, rent and the rate of profit had been determined, prices could be derived by adding together the component parts. However the contradiction between the classical theory of production and the Ricardian theory of distribution meant that the resultant prices did not coincide with the values according to which the distributive categories were determined. Hence within the Ricardian system the determination of prices was always subject to the qualifications that this

divergence necessarily introduced. The vulgar critics of classical political economy had exploited this contradiction to reject the classical theory of distribution and the theory of value on which it was based. However, although they asserted the priority of price over value or even the exclusive reality of price as against value, they could offer no rigorous theory of price determination, nor did they seriously seek to develop such a theory. The marginalists followed the vulgar economists in their concern with the question of prices, but they did not follow them in rejecting the need for a theory of value. For the marginalists a theory of value was essential to any attempt to develop a rigorous theory of price. What was at issue between marginalists and classical political economy was the character of this theory of value. For classical political economy the basis of value was labour, or, more generally, the costs of production. For the marginalists the basis of the theory of value was initially defined as 'utility'.

The problem of prices and the problem of reform

In order to understand the marginalist revolution we have to understand why questions about the rigorous determination of prices came to replace questions about economic growth and distribution as the central concern of economists. An obvious answer is that questions about economic growth and distribution led too easily to socialist conclusions so that a new 'apologetic' theory was needed. Marginalism neatly avoided the major questions about class relations and the constitution in order to pose questions about utility, efficiency and the formation of prices. Marginalism thus narrowed the field of economics, made it into a technical rather than a political discipline and asked innocuous questions while providing, as we shall see, a naturalistic justification for capitalist social relations.

In very general terms such an answer has some validity. However, it will not do as an account of the marginal revolution. Firstly, as we have already seen, classical political economy had shown itself quite capable of defending capitalism, expressing Burke's dictum that 'the laws of commerce are the laws of nature, and consequently the laws of God' (Burke, E., 'Thoughts and Details on Scarcity', in *The Works of Burke*, OUP, London, Vol. VI, 1907, VI, p. 22), thus showing capitalist society to be both natural and sacred. Its deficiencies were its inability to accommodate the possibility of reforms to deal with the labour question and the increasingly apparent unreality of its fundamental premises. Secondly, the mantle of classical political economy was not immediately taken over by marginalism. Popularisations of economics relied on the relativism of the Historical School and on the vague notions of vulgar economy and continued to borrow ideas from the classical

school. The directly apologetic development of marginalism had to wait until the 1890s.

It is also very far from being the case that in the last quarter of the nineteenth-century classical political economy was contrasted with marginalism as political rather than technical. Classical political economy had played a central role in the political conflicts of the first three or four decades of the century, but from the late 1840s it had progressively lost its radical veneer. The final break was marked by the repeal of the Corn Laws in 1846, and corresponded politically to the development of the Anti-Corn Law League from an organisation that sought to contest the privileges of landed property to an organisation that sought to preserve the working class from radical influence by persuading the workers of the futility of reform and of their common interest with their employers. Although the class model of society in a sense had radical possibilities inherent within it, and the classical framework was one within which fundamental constitutional and political issues could be raised, these issues were regarded by mid-century as having been definitively settled. Classical political economy, far from providing a framework within which to question capitalism, showed definitively and conclusively that liberal capitalism was the best of all possible worlds.

Marginalism, by contrast, was born in a period of fundamental political change and matured in debates whose motivation was intensely political. If classical political economy had degenerated by the 1860s, marginalism came upon the public stage in the last two decades of the century in a much more militant and aggressive garb, playing a central political role in the debates within the emerging labour movement between reformist and revolutionary factions, serving not only to defend capitalism but also to show the necessity and the possibility of reforms within the capitalist order. It would be quite wrong to take marginalism at face value and to see it merely as a method of technical analysis that is devoid of any particular conception of society. Marginalism embodied a particular theory of capitalist society no less than did classical political economy and it is our task in this chapter to disentangle that theory.

Although it presented itself as a positive science, and espoused the neo-Kantian notion of the strict separation of facts from values (in which it followed and was influenced by John Stuart Mill), the new economics arose directly from a concern with evaluation. The questions that gave rise to a demand for a pure theory of price were questions about the proper prices of commodities. Jevons, for example, was especially concerned with the problem of scarcity (in particular the scarcity of coal) and with the role of prices in allocating resources. The problem he posed was that of determining what prices would achieve the optimal allocation of resources. The solutions that were reached would then serve as the basis of policy prescriptions about

the proper role of State intervention in the formation of prices in order to achieve such an allocation.

This example may seem relatively insignificant, a slender basis on which to build a revolution in economics as opposed to, say, a branch of public administration. But the question had a much more general significance and the solution a much more fundamental application. The more general context of the marginalist revolution was a concern with understanding the possibilities and limits of State intervention in the regulation of economic relations, including in particular the resolution of the labour question. The general background of this concern was the increasing role of the State in economic and social life. This role involved not only increasing State provision of public utilities, and of limited education, health and welfare services, but also increasing pressure on the State to intervene in the regulation of the private sector: to protect domestic producers against foreign competition, to intervene abroad to secure foreign markets and investment outlets, to regulate financial markets and to stimulate domestic investment, to regulate the national transport system and above all to intervene directly or indirectly to regulate the relations between capital and labour.

All these actual and proposed forms of State intervention contravened the pure principles of economic liberalism. In order to evaluate them rationally a more rigorous theory of the consequences of a liberal economic regime was required. Such a theory would then provide a basis on which proposed intervention in the economy could be judged by providing a bench-mark against which it could be evaluated. Thus Menger developed his version of marginalism on the basis of his dissatisfaction with the empiricism of the German Historical School that was unable to provide any principled basis on which the possibilities and limits of State intervention could be evaluated. Walras sought to establish rigorously the results of economic liberalism in order to locate its limits:

how could these economists prove that the results of free competition were beneficial and advantageous if they did not know just what these results were?... the fact that economists have often extended the principle of free competition beyond the limits of its true applicability is proof positive that the principle has not been demonstrated (Walras, L., *Elements of Pure Economics*, Allen and Unwin, London, 1954, pp. 256–7).

Jevons too was quite explicit about his motivation: ‘If such a thing is possible we need a new branch of political and statistical science which shall carefully investigate the limits of the *laissez-faire* principle, and show where

we want greater freedom and where less.’ (Jevons, S. *Methods of Social Reform*, Macmillan, London, 1883, p. 204).

The context of the marginal revolution was the rapidly growing movement for social reform. The specific motivation for the development of a rigorous theory of price determination was the concern to be able to achieve some basis on which to evaluate proposed reforms. This concern brought people of very different political persuasions into a common enterprise. Thus, while most of the marginalists were committed to some degree to social reform, some saw the new methods as a means of tempering reformist demands.

Menger saw in the new economics a means of setting conservatism on a rigorous foundation by showing the precise mechanisms by which organic social institutions, such as prices and money, emerge from the pursuit of individual self-interest and come to express the collective wisdom of society. Menger therefore lumped together classical political economy and the German Historical School as exponents of a one-sided rationalistic liberalism that paid insufficient attention to the value of organic social structures in their enthusiasm for reform. Menger saw himself as bringing to fruition the tradition of Burke and Savigny that the historical school had betrayed, in aiming at a

full understanding of existing social institutions in general and of organically created institutions in particular, the retention of what had proved its worth against the one-sidedly rationalistic mania for innovation in the field of economy. The object was to prevent the dissolution of the organically developed economy by means of a partially superficial pragmatism, a pragmatism that contrary to the intention of its representatives inexorably leads to socialism (Menger, C., *Problems of Economics and Sociology*, University of Illinois Press, Urbana, 1963, p. 177).

The evaluative orientation of the new approach to the economy stands out very clearly when we consider just what were the prices to be explained. The marginalists were no more concerned with the determination of the actual prices that ruled on the market than were the classical economists. All the innovators emphasised the abstract character of pure economic theory in which the intervention of chance and uncertainty, of specific historical institutions or political interventions could all be ignored and their consideration deferred to subordinate empirical and policy studies. Pure theory was therefore not concerned with the determination of actual prices but with their determination in an ideal world of perfect knowledge, perfect foresight, perfect competition and pure rationality. It is against this ideal

world that the real world, and proposed reforms in the real world, are to be measured.

The marginalist theory of price

The starting point of the marginalist economic analysis is the possession by individuals of sets of goods in conditions of scarcity. The economic activity of these individuals consists in exchanging these goods for other goods in such a way as to maximise the total utility that they derive from them. Thus the analysis focuses on the elementary form of exchange and asks how prices emerge on the basis of such elementary exchanges. The exact terms in which each writer proposed the solution differ but the essential principles are common to all.

Exchange brings together individual owners of goods. When such owners meet in the market they have to decide which goods to sell, and at what price, and which goods to acquire, and at what price. It seems self-evident that the price an individual will be prepared to pay for a given good will depend on what the individual thinks it is worth to him or herself. Yet for the classical political economists this always gave rise to the paradox that the highest prices are paid for the most worthless goods, such as diamonds, while the most useful goods, such as air, are free. The marginalist solved this paradox by noting that the price did not correspond to the total utility of the good, but to the utility of the last unit of the good that was acquired. They also observed that as an individual acquired more of a given good the utility of the marginal unit tended to diminish. Thus because air is available in unlimited quantities we are profligate in its use so that the utility of the last unit of air used is nil, while because diamonds are very scarce the marginal utility of diamonds is high. Goods therefore only have value in conditions of scarcity, and the task of economics is to establish the value of scarce goods. The price an individual will be prepared to pay for a good will correspond not to the total utility of that good, but to the utility of the marginal unit of the good that is acquired.

The individual will take up the opportunity to exchange if by so doing he or she can achieve an increase in the sum of utilities at his or her disposal. Faced with given exchange ratios (prices) the individual will choose to exchange goods until the relative marginal utilities of the goods possessed at the end of the transaction correspond to the exchange ratios in which they stand. In any other situation the individual could improve his or her position by exchanging goods of relatively low for goods of relatively high marginal utility. Thus at every possible set of exchange ratios the demand for and supply of each good on the part of each individual can be specified. If individual demand and supply functions are aggregated, total demand and

supply functions can be specified. It can be shown that under appropriate assumptions (including the absence of ignorance, inconsistency and uncertainty) the interaction of demand and supply will give rise to a unique set of stable equilibrium prices that clear all markets by equalising supply and demand. These prices are those that correspond to the free and rational choices of all the individual members of society seeking to achieve their own optimal solutions in conditions of scarcity.

The analysis so far is based on the interaction of a series of individuals each endowed with a fixed and given supply of goods. The initial allocation of goods is taken as given historically and so is no matter for the economist to investigate. However an adequate economic analysis must take account of the fact that goods are produced, and so are not in fixed supply. Production is considered to be beyond the area of concern of economics and is seen as a purely technical process within which factors of production are employed in certain technically determined proportions to produce goods. If there is a range of techniques available to produce a given good then the economist will be concerned to explain which technique will be employed, but otherwise the 'hidden abode of production, on whose threshold there hangs the notice' 'No admittance except on business' (*Capital*, I, pp. 279–80) is no business of the marginalist. The recognition of the fact that goods are produced does, however, have important implications. If we move from the level of abstraction at which production is considered to be undertaken by individuals, the introduction of production introduces a distinction between two different kinds of economic units: on the one hand, households, which are the units of consumption; on the other hand, firms, which are the units of production. Households supply the services of productive factors to firms and purchase from firms the goods that are produced with those productive services.

This recognition of production introduces two further distinctions, Firstly, the motivation of firms cannot be identified immediately with the motivation of households. The household aims to maximise utility, but utility is a subjective concept and a firm is not a subject. Thus the firm seeks to maximise profits. This introduces a complication into the theory that can only be resolved by formulating a theory of profit which can establish that profit corresponds to the return to the owner of capital so that the maximisation of profit corresponds to the maximisation of utility on the part of the owner of capital. Secondly, a distinction is introduced between goods and productive services (the Austrians distinguished between goods of different orders). Productive services differ from the goods so far considered in having no utility as such, for they are only useful when they are applied to the production of useful goods. The utility of productive services is therefore

a derived utility, as is that of intermediate products that never enter final consumption.

The fact that productive services can be said to have a derived utility makes it possible, under certain restrictive conditions, to derive prices of these productive services from the estimations of utility expressed in the prices of final products. If the factors of production are in fixed supply and if the same factors are used in different combinations in different productive activities, the marginal contribution of each factor to final utility can be derived and this will correspond, in equilibrium, to the price of the factor. Thus wages, rent and profit can be derived as the revenues accruing to the factors of production — labour, land and means of production — without making any reference to labour-time or to costs of production.

Such a result was gleefully proclaimed by the early marginalists as demonstration of the falsity of the classical doctrines. However, their elation was premature since the assumption of fixed factor supplies on which the result depended was either meaningless, if it referred to the aggregate supply of each factor (because it could not specify the basis on which heterogeneous qualities of labour, land and means of production should be aggregated), or grossly unrealistic, if it referred to the fixed supply of each quality of labour, land and means of production taken separately.

More sophisticated developments of marginalism recognised the role that costs had to play in the determination of prices by recognising that factor supplies were not fixed. The prices of the factors of production are then determined by the interaction of demand and supply. The demand for each factor will be dependent on its *marginal productivity*, which is the monetary expression of its marginal contribution to utility. Since factors will be used in the most productive outlets first, the marginal productivity of each factor will decrease as relatively more of that factor is used. Thus the demand for the factor will be a decreasing function of its price.

The supply of each factor can be determined in one of two ways within the marginalist framework. On the one hand, on the basis of a *real cost* theory, such as that of Alfred Marshall and of the classical tradition, the supply of a factor of production will be dependent on the *marginal disutility* incurred in offering it for sale. For the labourer this is the marginal disutility incurred in having to work rather than enjoy the time at leisure; for the capitalist it is the marginal disutility involved in abstaining from immediate consumption in favour of consumption in the future. On the other hand, on the basis of a theory of *opportunity cost*, such as the Austrian theory of *utility cost*, the supply of the factor of production will be dependent on the utility that could be gained by employing the marginal unit of the factor elsewhere. In the end the two theories come to much the same thing, although the opportunity cost theory is marginally less tendentious in being less reliant on the direct

subjective estimation of utilities. All that matters is that either version can establish that in equilibrium the price of the factor of production corresponds to its marginal productivity, on the one hand, and to its utility cost or marginal disutility, on the other. Moreover it can be shown that the sum of wages, rent and profit derived in this way, subject to certain not unrealistic conditions, will exhaust the total product. Thus the marginalist analysis of prices can give rise to a theory of distribution by explaining the returns to the various factors of production.

The marginalist analysis of the pricing of products and of productive services is conducted at a level of abstraction that excludes consideration of an historically specific framework of social relations. All that is required is an institutional separation of household from productive enterprise as budgetary units, the existence of a free market as a means by which individual evaluations of utility can be related to one another and the freedom and security of property as the basis of free exchange. Within this framework the prices that arise are the results of the spontaneous and unconstrained expression of individual rationality. Since the institutions of production and exchange are simply technical instruments by means of which individuals may rationally pursue their economic ends, it should not be surprising that the marginalist analysis offers not simply an abstract account of the formation of prices in conditions of perfect competition, but also purports to establish the social rationality of a society based on competitive exchange by establishing that the prices reached, and the consequent allocation of resources, are in some sense optimal. It is in this supposedly rigorous demonstration of the allocative efficiency of capitalist society that the originality of marginalism lies.

If product prices correspond to marginal utilities, and marginal utility is a diminishing function of the supply of the product, then no re-allocation of the products can achieve an increase in total utility, for the increase in utility corresponding to the new use of any good cannot be greater than the loss of utility corresponding to its old use. Likewise, if factor prices correspond to marginal productivities, and marginal productivity is a diminishing function of factor supply, then the re-allocation of factors can only reduce the total product, measured at current prices, and so the total utility. Thus any intervention in the pricing or allocation of factors or products that disturbs the attainment of competitive equilibrium is bound to reduce (or at least cannot increase) total utility. This result is subject only to the qualification that the initial distribution of resources is given. Judgements about the equity of this distribution are outside the domain of economics. Thus Jevons: 'so far as is consistent with the inequality of wealth in every community, all commodities are distributed by exchange so as to produce the maximum of benefit' (Jevons, S., *The Theory of Political Economy*, Penguin,

Harmondsworth, 1970, p. 171); Walras: ‘the consequences of free competition... may be summed up as the attainment, within certain limits, of maximum utility’ (Walras, *Elements*, p. 255) and Wieser: ‘Where the general conditions are considered socially satisfactory and morally and legally correct, the general price is found also to be the just, or equitable, price.’ (Wieser, F. Von, *Social Economics*, Allen and Unwin, London, 1927, p. 184).

The marginalist theory of society

In economics textbooks the marginalist revolution is usually described in terms of the technical innovations that made possible a more rigorous economic analysis. Economics is presented as the marginalists themselves presented it, as a natural science of the economic dimension of society, analysing economic phenomena in abstraction from any particular social or institutional arrangements. As such economics is not about any particular society and its laws can be considered to be applicable in the consideration of any economic problem, which is defined as any problem concerned with the allocation of goods in conditions of scarcity.

However, marginalism does not simply offer a theory of rational choice. The theory also purports to explain how the capitalist economy actually operates, and as such embodies a very particular concept of capitalist society. It rests on the claim that the economic institutions of capitalist society can be abstracted from their social and historical context and can be considered as the rationally developed technical instruments appropriate to the optimal allocation of scarce resources. It can make economics a natural science because it naturalises the economic relationships of capitalist society.

In its theory of price, marginalism explains the formation of prices as an expression of the individual rationality of economic agents, competitive exchange serving optimally to reconcile the conflicting interests of these individuals so as to reconcile individual and social rationality. On the basis of this analysis marginalism then proceeds to demonstrate that all capitalist economic institutions are, in their purest and most abstract form, the most perfect expressions of individual rationality: property, exchange, money, the division of labour and the separation of labour from the means of production are all explained not as forms of historically specific social relations, but as technical instruments that facilitate the most perfect realisation of individual rationality. In this way the characteristic social institutions of capitalist society are naturalised and torn out of their historical context, explained as unintended consequences of the rational economic activity of individual actors, adequate to that rationality.

The starting point of the marginalist analysis is the isolated, utility-maximising, individual endowed with given tastes, skills and resources making rational decisions in conditions of scarcity. The analysis asks how this typical individual would behave, on the assumption that the individual will seek to satisfy a 'desire for the most complete satisfaction of needs possible' (Menger, *Problems*, p. 63). At this level the method of analysis is psychological, but it does not depend on any particular psychological theory, although it was originally formulated in terms of a utilitarian psychology. The starting point is the 'practical consciousness of economic relations' (Wieser, *Social Economics*, p. 4). However, the method is not that of an 'intuitionist' psychology, but of the deductive reconstruction of the behaviour of a rational individual. Thus the Austrians considered economics to be a branch not of psychology, but of *praxiology*, the science of rational action. The analysis implies no assumptions either about how individuals actually behave or about how individuals should behave. On the one hand, it is an abstract analysis considering the hypothetical consequences of rational economic action. On the other hand, the assumption that the individual seeks to maximise the satisfaction of needs implies no particular assumption about the content of those needs. The theory requires only that the individual should have a set of preferences and act consistently on those preferences.

The elaboration of marginalist economic theory is an attempt to show that its essential results can be extended from the case of the isolated individual making subjective private decisions about the management of his or her scarce resources to the case of an exchange economy considered as a whole. The method generally adopted was to consider firstly the simple case of barter of two goods between two individuals and then progressively to elaborate the model to include many individuals, many goods, money, the production of goods on the basis of fixed and then variable technical conditions, and of fixed and then variable factor supplies to show that the essential results continued to hold throughout this elaboration, on certain not unrealistic assumptions about technical conditions and the ordering of preferences.

The extension of the analysis from the abstract and isolated individual to the exchange society depends on establishing the neutrality of the institutions of exchange by showing that the market provides the means by which individual preferences can be realised, without imposing any external constraints on individual choice. In this sense it depends on establishing that the market is a technical instrument through which human beings can achieve economic self-realisation, rather than a social institution that structures particular social relations and subjects individuals to particular forms of constraint. This is achieved by establishing the technical rationality of the institutions of exchange.

Most of the marginalists simply assumed the rationality of economic institutions, for it was an assumption that was one of the self-evident liberal truths handed down from classical political economy in all its variants. However marginalism takes up these truths when they have been thrown more fundamentally into question than at any time in the previous century. Socialists and reformers alike were no longer prepared to accept their self-evidence, let alone their sacred character. Thus marginalism had to go much further than earlier versions of liberalism in attempting a rigorous, and thoroughly secular, demonstration of these truths and, indeed, of their limits. It was the Austrians, and in particular Menger, who undertook this demonstration.

Menger was insistent on the need to relate social institutions, such as money, prices and exchange, back to their origins in individual action in order to establish their foundations in the natural and spontaneously evolved needs and aspirations of individuals. He was also quite explicit about his motives for doing this, for his invective was not directed at the conservative organicism of Burke and Savigny, which he believed to be legitimate within limits, but only at the relativistic approach of Schmoller and his associates in the historical school, an approach that could only lead to socialism. Thus his confrontation with what he considered to be the blind radicalism of Schmoller led Menger to formulate much more clearly than did his contemporaries the necessary foundation of marginalism in the radical distinction between the rational foundations of the economy and the social and institutional framework within which the economy operated and correspondingly to offer a rationalistic and individualistic derivation of those foundations. Methodologically Menger presented the issue as one of pure theory against singular explanation, but the substantive issue underlying this was the fundamental one. The possibility of a pure economic theory depended on the possibility of a rationalistic conception of economic relations, and this rationalistic conception could in turn set limits to the reformist ambitions of radicals and socialists.

The institutions for which he had to account were the institutions of property, exchange, money and capital. The first precondition for exchange is private property, and Menger offered a simple rationalistic explanation of private property, not as a social institution but simply the rational development of the private relationship between an individual and a thing. It is only the protection given by the institution of private property that can prevent the scarcity of goods in relation to human needs from giving rise to open conflict:

Thus human economy and property have a joint economic origin since both have, as the ultimate reason for their existence, the fact that goods

exist whose available quantities are smaller than the requirements of men. Property, therefore, like human economy, is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed on us by the disparity between requirements for, and available quantities of, all economic goods. (Menger, C., *Principles of Economics*, Free Press, Glencoe, 1950, p. 97)

The security of private property ensures the peaceful resolution of the problem of scarcity, which is the economic problem confronting any society. The economic problem facing the isolated individual is a relatively simple one, of employing his or her resources so as to attain the maximum possible degree of satisfaction, but this problem is not essentially altered when another individual is introduced with whom it is possible to exchange. Since each individual is free to exchange or not the only significance of exchange is to increase the possibilities available, and so to make it possible to achieve a higher level of satisfaction. Thus the institution of exchange is simply a further development of the rational attempt to maximise utility, spontaneously evolved by the action of self-interested individuals. Thus Menger, after establishing that exchange is not an end in itself, concluded that ‘the effort to satisfy their needs as completely as possible is therefore the cause of all the phenomena of economic life which we designate with the word “exchange”’ (Menger, *Principles*, p. 180).

Within exchange the marginalist analysis establishes that exchange ratios express nothing but the private evaluations of goods, hence in a perfectly competitive equilibrium prices are determined without reference to any particular social or institutional context, representing merely a summation of individual evaluations. Money is no more a social institution in this sense, for money too arises spontaneously out of the individual attempt to maximise utility. The inconveniences of direct barter originally led some enterprising individual to attempt to achieve exchange through the mediation of a third good that was highly exchangeable. As others imitated the innovator that good came to take on the character of money. Thus money too had a rational origin as a technical instrument invented by individuals in order to perfect the process of utility-maximisation.

Consideration of production did not fundamentally alter this model of society. Production was considered to be simply a technical means of transforming higher into lower order goods. The extension of the division of labour and the selection of technically and economically efficient methods of production emerged spontaneously out of the rational economic activity of individuals and brought both individual and social advance. With increasingly advanced methods of production the division of labour affected the internal organisation of production, as well as the relation between

different branches of production, introducing a division of labour between the factors of production — land, labour and capital. If these factors of production happened to be owned by different people a distinction arose between labourers, capitalists and landowners. However this distinction was rooted in the technical constraints of a rational division of labour: the separation of the labourer from the means of production was not the social foundation of capitalist exploitation, it was a necessary technical characteristic of advanced methods of production.

The system of money and exchange, of the division of labour, of private property, of wages, rent and profit, the exchange values of goods and of productive factors to which they gave rise, were all rational and, ultimately, natural phenomena in the sense that they expressed nothing but human wants and technical constraints that could not be modified by any social intervention. Thus, for Walras, exchange value ‘once established, partakes of the character of a natural phenomenon, natural in its origins, natural in its manifestations and natural in essence’ (Walras, *Elements*, p. 69). Wieser termed the values derived by pure theory ‘natural values’, for the value of a good depended only on its scarcity relative to human desires. In the same way the theoretical values of wages, rent and profit depended only on the scarcity and technical productivity of the factors of production to which they corresponded in relation to the desirability of the goods they produce. Thus for Jevons, profits and wages were determined by ‘natural laws’.

However much marginalism defined itself in opposition to classical political economy, it represented much more a reformulation than a rejection of the latter doctrine. On the one hand, marginalism altered the basis on which capitalist society was evaluated. Where classical political economy sought to establish the rationality of capitalist society on the basis of a theory of distribution and growth, marginalism sought to do so on the basis of capitalism’s allocative efficiency, viewing problems of growth simply as problems of allocation of resources over time. To this extent classical political economy became merely a special case within the marginalist framework. On the other hand, marginalism made it possible to dispense with the classical theory of class by introducing techniques that made it possible to analyse factor prices independently of the distribution of those factors. Thus marginalism was able to proclaim itself more scientific than classical political economy in attaining a higher degree of generality. Marginalism followed classical political economy in attributing revenues to the owners of factors of production according to the trinity formula. However for classical political economy the revenues that accrued to the owners of the different factors of production were each determined according to different principles, and this introduced a necessary differentiation of class

interest into the heart of the model, thus giving rise to a class-based model of society.

The marginalists found the asymmetry of treatment of the different factors of production one of the most unsatisfactory aspects of the classical theory. Formally, they argued that if economics was to make convincing claims to be a generalising science then it must be able to establish general principles that would govern the pricing of all goods, including the factors of production, without admitting of exceptions or introducing extra-economic factors. Thus, for example, the fact of private ownership of the factors of production was of no more relevance to the determination of their value than it was in the case of finished goods. It was only the inadequacy of the classical theory of value that led the classical political economists to espouse exceptional theories for the value of the factors of production. The great merit of the marginal utility theory of value was that it could be applied with complete generality.

The significance of the marginalist criticism and of the reformulation of the theory of distribution, was not simply methodological. Revenues, according to the marginalist theory, did not accrue to social classes, they accrued to factors of production, and they accrued to factors of production according to the same general principles. Each factor, whether it was labour, capital or land, received a reward corresponding to its individual contribution to production and so to final utility. In this respect there was no more qualitative difference between capital and labour than there was between different varieties of labour. Neither labour nor capital received their rewards as labour or as capital, but only as individual factors each making its distinctive contribution. Hence there was no need for any concept of class mediating between the individual and his or her revenue. In particular the doctrine of the wages-fund, according to which wages were determined by sharing out a fixed sum amongst the entire working class, had to be rejected (although Böhm Bawerk resurrected it in a revised form). On the one hand, there was no such fixed magnitude. On the other hand, labour was not homogeneous so the wages of different categories of labour had to be determined independently of one another, according to their contribution to production. In the same way the idea of profits as a residual had to be rejected, for profits corresponded to the marginal productivity of capital and were equalised as capital was distributed among branches of production in order to equalise that marginal productivity. 'I conceive that the returns to capital and labour are independent of each other', wrote Jevons in criticising the classical concept of the falling rate of profit (Jevons, *Theory*, p. 246).

In eliminating the classical theory of class, marginalism finally completed the naturalisation of capitalist society that classical political economy had begun. The distributive shares of different members of society were no longer related to one another, but only to the contribution of each individual

to production and of the product to final utility. Profit, rent and wages accrued to capital, land and labour whoever happened to own those factors of production, for they corresponded simply to the marginal productivity of the appropriate factor of production. The theory said nothing about the original distribution of goods, and so said nothing about the person to whom the revenue would ultimately accrue, for this was clearly a matter that concerned the particular social and institutional arrangements of a particular society. In separating the analysis of the pricing of productive factors from consideration of distribution, economics could separate the analysis of capitalist economic relations from consideration of the distribution of wealth and power historically associated with those economic relations. For classical political economy, and later for Marx, the two aspects of capitalist society were inseparably connected with one another. For marginalism the relation between the two was a purely contingent historical relationship. Wages, rent and profit were natural categories that simply expressed the scarcity of productive resources: 'The distribution of income and the apportioning of yields (to factors of production) are two entirely distinct problems' (Wieser, *Social Economics*, p. 113).

Facts and values in economic science

Marginalism purported to offer a natural science of the economic dimension of society, analysing economic phenomena in abstraction from any particular social or institutional arrangements and so abstaining from making any judgements about the propriety of such arrangements. The laws that economics develops are natural, or 'positive', laws that neither imply nor impose any moral or political judgements.

This claim to value-neutrality on the part of marginalism would appear to be belied at once by the observation that the capitalist system as presented by marginalism was not simply a fact, but was also an ideal. The free market system was claimed to represent the perfect self-realisation of individual rationality in achieving the optimal allocation of resources on the basis of a given distribution of tastes, skills and resources. The apparent paradox is resolved when we realise that the society the marginalists described was ideal not because it corresponded to the evaluations of the theorist, but because it offered the most perfect expression of the preferences of the members of the society. The exchange economy was simply a technical instrument, a means through which individuals could seek to achieve their economic ends. It was the most perfect such instrument in the sense that anything that could be achieved outside the market economy could be achieved more economically within it, while it remained purely an

instrument, so that it imposed no constraints on the ends that could be achieved through it.

The marginalist model was formulated at a very high level of abstraction. It did not describe capitalist society as it was, it described an idealised version of capitalism. On the one hand, it was based on the ideal concepts of the rational economic actor, perfect competition, etc. On the other hand, it was an abstraction from the historical reality of capitalist society that idealised reality in abstracting from all those features that disfigured the reality of capitalism and that offended liberal sensibilities. It was therefore not a theory that could be applied directly to the reality of capitalism, and so it was not a theory that could so easily be turned to vulgarly apologetic ends.

The marginalists were well aware that their abstractions did not correspond directly with reality and they did not seek to defend them as such. Thus Menger stressed that the pure theory rested on certain assumptions, including assumptions about perfect knowledge, perfect foresight and an absence of constraint, that did not necessarily apply in reality. In the real world 'real prices deviate more or less from *economic ones*', while the laws of economics were those 'holding for an analytically or abstractly conceived economic world' (Menger, *Problems*, pp. 71–3). The pure theory offered an abstraction that represented an ideal world against which reality could be measured and against which proposed reforms could be evaluated. It is therefore no criticism of the marginalist analysis to note that reality does not correspond to its abstractions: insofar as the real world does not accord with the abstractions of marginalism it is not the economic theory that is in error, but the real world that is in need of reform.

The marginalist model provided a standard against which reality could be measured. As such it provided a model that could theorise the possibilities of reform. Although marginalists like Menger, Pareto and J. B. Clark were conservatives who stressed the virtues of capitalism and used marginalism primarily to berate and restrain over-enthusiastic reformers, others, such as Walras, Jevons, Wicksell, Wicksteed, Wieser and Marshall, were reformists to some degree, recognising the extent to which the reality of capitalism departed from the marginalist model. For these thinkers marginalism provided a means not simply to defend capitalism, but also to evaluate objectively the possibilities of reform. Thus they recognised the harmful effect of monopoly in the real world and made proposals for the regulation or abolition of monopolies. They saw a need to improve the moral and material conditions of labour, proposing educational reforms to increase the productivity of labour and to give it a more civilised character. Some were even ready to contemplate the redistribution of wealth, especially through death duties and the taxation of landed wealth. However even the most radical set limits to the extent of the reforms that could be contemplated and

those limits were defined by the conditions for competitive equilibrium. Thus reform could re-establish competition; it could regulate monopolies, it could combat ignorance and the abuse of power and it could even redistribute resources, so long as the latter redistribution did not erode incentives. However the fundamental institutions and social relations of capitalist society could not be questioned. The marginalist model thus served to define clearly and precisely the limits of reform as well as its possibilities.

The marginalist model is well able to accommodate the fact that reality diverges from the model. However, such divergences are considered to be contingent social and historical phenomena and are not to be explained as inseparable aspects of the operation of the capitalist economic system. They are, therefore, not the concern of the economist. Nevertheless, in recognising the reality of the blemishes on the face of capitalism, marginalism recognises the need for complementary disciplines to study the source of these divergences. For some economists these complementary disciplines were considered to be empirical and historical disciplines that simply studied the specific institutional environments of different economies, particularly the specific patterns of distribution of property. In this respect the work of the German Historical School and the related schools of *sociology* had already shown their worth. However other economists were more perceptive and saw that the divergences between the marginalist model and capitalist reality could themselves have a systematic character and so could be the subject matter of a rigorous sociology that did not simply attribute social evils to moral deficiencies or to the demon drink or to problems of adjustment or to cultural survivals from an earlier evolutionary stage. The decisive advance that gave birth to modern sociology was the idea that the defects of capitalism could be specifically capitalist phenomena, arising out of the economic relations of capitalist society, though not inherent in those relations. Thus marginalism marked out a space for the complementary discipline of sociology, the central subject matter of which would be the foundations, exercise and abuse of power in society. The space had been created, but the new discipline had still to be made.

The theory of the social economy

The study of the social framework of capitalist economic activity first emerged as the complementary discipline of *social economics*. In many cases social economics was essentially an empirical discipline, investigating the distribution of income, conditions of employment and unemployment, provision for the poor and the sick etc. However, attempts were also made to develop a more systematic approach to the social framework of capitalism, developing social economics as a theoretical, and not simply as an empirical,

discipline, on the basis of the marginalist analysis of the economy. In Britain, the Fabians played a pioneering role in this respect. Elsewhere one of the most important contributions was that of Wieser, most notably in his *Social Economics* (1914), which is significant both for the clarity of its exposition and for the influence it had on Max Weber.

Wieser originally took up the study of economics on the basis of a reading of Herbert Spencer and was attracted by Menger's attempt to get beyond the conception of society as an organism by tracing the origins of organic institutions in individual behaviour. Although a follower of Menger, he recognised more clearly than did Menger the need for reform and for an adequate understanding of the social context of the capitalist economy. This was the theme of his books *Law and Power* (1910) and *The Law of Power* (1926), but was developed most systematically in *Social Economics*, which brought clearly into view the connection between Wieser's economics and his programme for sociology. *Social Economics* was published in 1914 as part of the *Grundriss der Socialökonomik* edited by Max Weber, a series of which Weber's *Economy and Society* and an early version of Schumpeter's *History of Economic Analysis* appeared as subsequent volumes. Weber is reported to have made it a condition of his participation in the project that Wieser should write the economic theory section of the series, but the volume that resulted is more than an exercise in pure economic theory (Translator's introduction to Wieser, *Social Economics*, p. xi).

In the Preface to the Second (1924) Edition Wieser made explicit the concerns that motivated him in writing the book. The problem that he confronted was that the capitalist economy was based on the pursuit of personal interests, but this made it possible for individuals to use their power to override the general interest. The 'highest task of theory' was thus to show 'in what relations this consciousness and power were in harmony and in opposition to the creation of the social, state and world economy' and so to what extent it was necessary to curb such power. Theory would thus define the tasks of 'enlightened statesmanship... in particular it will point the way to needed reforms' and would serve the State in showing 'those most general elements of management and value which have always existed and will always exist'. The context of this need for reform was the rise of the proletariat. 'Almost everywhere in Europe the proletariat has come forward with such strength that it must be considered and a counter-reform of the economic order proposed' (Wieser, *Social Economics*, p. xvii). This is something that classical political economy could not accommodate because it was formulated at such a high level of abstraction that it neglected questions of power, conflict and economic evil.

The classical theory does not go to the root of the economic interconnections sufficiently to explain the meaning of a developed national economy. It does not enable us to refute the socialistic criticism of the prevailing order; it has, on the contrary, supplied the most important arguments of that criticism. The classical theory of freedom, above all, results in a vindication of capitalistic domination. (Wieser, *Social Economics*, p. 411)

Wieser starts with the *theory of the simple economy* which abstracts from all social institutions, providing a general explanation that is 'not dependent on the form of exchange'. Essentially it is the model of an ideal organic society directed by a single individual who adopts a 'rationalistically utilitarian point of view' (Wieser, *Social Economics*, p. 11). This abstraction made it possible to theorise a society in which individual and social rationality were identical, in which the good of one was the good of all. The elements of this economy were individuals with given needs and preferences, producing scarce goods with scarce land, labour and means of production. The results attained were the familiar marginalist equalisation of relative marginal utilities.

In the theory of the social economy exchange and private property were introduced. The results derived from the theory of the simple economy still held for the exchange economy, which was simply a sum of simple economies, so long as we abstract from the abuse of power. 'Whenever we disregard the stress of economic power we shall find that the utility value of the simple economy is precisely the same economic value which functions in the transactions of economic exchange'. However, such an abstraction is no longer legitimate: 'An economic theory that should suffice for our times is inconceivable without a social theory that is consistent with the fact of power' (Wieser, *Social Economics*, pp. 144, 154).

Social power is the basis on which social classes are formed. However social superiority is not based entirely on property, but on any factor that bestows a favourable market position on its holder. Thus such factors as education also play a role, and it is important to take account of horizontal divisions based on the division of labour. Thus power in our society is multidimensional, based on the possession of a favourable market situation. In the social economy we are no longer dealing with the abstract individual of utilitarianism. In economic conduct, argued Wieser, the individual was determined by social forces: 'needs, impulses and egoism itself are dominated by social powers'. Hence economic rationality was embodied in the norms of society. In accepting the norms of society the 'socially educated individual' transformed his or her egoism into 'social egoism' (Wieser, *Social Economics*, p. 160). Thus the implications of the existence of social

stratification and of differences of power were moderated as normative restraints limited the abuse of power and position.

The normative regulation of egoism means that, if we abstract from crises and panics and assume a voluntary subordination to law and morality, the exchange economy still has the result that 'production values... are unified and concentrated, and their apportionment to the individual branches of production take place as by a social plan. The spirit of a social economy is complied with, although there is not a unitary social management'. Thus 'where the general conditions are considered socially satisfactory and morally and legally correct the general price is found also to be the just, or equitable, price' (Wieser, *Social Economics*, pp. 206, 184).

Wieser was not so naive as to believe that these ideal conditions pertain in our society, for he argued that the polarisation of wealth and power is too great for normative restraint to be effective. Over-competition of the poor in labour markets forces down wages, while overcompetition of the rich in product markets leads to overproduction, so to have a well-ordered market controls on competition are required. Moreover victory in competition goes not to the most efficient but to the largest capitals, which are best able to survive 'revolutions of trade'. The effect is the increasing polarisation of society as the industrial middle classes are displaced into the proletariat and the proletariat is deskilled. The rich are satiated, the poor overworked and underpaid, morally and culturally debased. Under the 'capitalistic relations of employment' workers lack the will to work. Thus the 'contrasts of capitalistic affluence and proletarian misery become too glaring' and if this polarisation becomes extreme 'it would then be obvious... that social economy had wholly lost its significance' (Wieser, *Social Economics*, pp. 210, 383, 381, 405).

This description of the tendencies of developed capitalism is hardly that of an apologist for the existing order. Indeed the symptoms that Wieser identified are precisely those contradictions that Marx saw as inherent in the capitalist system: extremes of wealth and poverty, class polarisation, overwork and unemployment, satiation and cultural debilitation, centralisation of capital and overproduction. However Wieser was insistent that these deficiencies are not inherent in capitalism, nor do they counterbalance the positive features of the capitalist system. The capitalist economy alone is able to allocate resources efficiently so that production is maximised. Thus 'it may well be that a system of rules, which distributes very unequally the enormous gains to which it is instrumental, is after all more beneficial to the mass of the citizens than another, doling out its much smaller proceeds according to "principles of right and reason"' (Wieser, *Social Economics*, p. 398). The task was not to abolish capitalism, but to perfect it by eliminating the abuse of power.

Two different directions of reform opened up from this analysis. One was to seek to curb the abuse of power by removing the restrictions to competition that arose from monopolisation, State intervention and ignorance. It was in this direction that most of the Austrians, including von Mises and Hayek, developed the marginal analysis. Wieser, however, was more realistic, realising that capitalism's defects were the results of competition in an unequal society, not the results of curbing competition. He therefore favoured reformist solutions that extended the legal and administrative regulation of economic relations through the encouragement of trade unionism, protective legislation, factory legislation, compulsory insurance, housing policy, control of speculation, land reform and State and municipal enterprises. There was no reason to believe that these measures could not resolve the problem of power within the exchange economy, for there was no evidence that exploitation is inherent in exchange. The urgent need was to 'lay down for modern policy full theoretical foundations' that would make it possible to delimit the 'boundaries and instruments permitted to State policy' (Wieser, *Social Economics*, p. 410).

Marx, marginalism and modern capitalism

We have seen that marginalism developed on the basis of the theories of production and exchange proposed by classical political economy and the theory of distribution, based on the trinity formula, derived from vulgar economy. I have already looked in some detail at Marx's critique of political economy and in particular at his critique of the theories of production, of exchange and of the trinity formula. I do not intend to repeat those arguments here. However we do have to ask to what extent the marginalist revolution might modify Marx's critique.

Marx criticised the formal abstraction of classical political economy that led it to abstract economic relations from their social context, so naturalising the social relations of production, distribution and exchange. We have seen that marginalism, in rejecting the classical theory of distribution, completed that naturalisation. However marginalism, unlike classical political economy, proposed an economic theory that was self-consciously abstract and did not purport to provide a complete account of the social relations of a capitalist society. To provide a full account, economic relations have to be set into their social and historical context, the pure theory of economics being complemented and modified by social economics, sociology, and history. To what extent can marginalism, when complemented by social economics, absorb the Marxist critique of political economy? To what extent is it able to establish, albeit at an abstract level, the ideal rationality of capitalist economic relations?

In the first place we have seen that marginalism adopted unchanged the classical theory of production according to which production is considered as a technical process within which the cooperating factors of production, labour and capital, produce use-values. The subordination of labour to capital in the labour process is thus an expression of the technical requirements of advanced production, the capitalist performing the necessary functions of co-ordination and direction. Marx argued against this view that the capitalist mode of production could not be reduced to this technical content, but rather that in a capitalist society the production of use-values is subordinated to the production of value and of surplus value. The labour process is technically the means by which labour converts raw materials into finished products with the assistance of the means of production. It is only the subordination of the labour process to the production of value and of surplus-value that inverts this relationship and imposes the subordination of labour to capital. Hence capitalist production, far from being characterised by the harmonious relations of technical co-operation in the development of the forces of production, is characterised by class conflict over the production and appropriation of surplus-value. To what extent can social economics accommodate this critique?

Marginalist economics would recognise that its characterisation of production is an abstract one. The social economist would recognise that the private ownership of the means of production does give the capitalist an interest in the subordination of labour and this may lead the capitalist to abuse his power and to intensify labour beyond reason. Thus within the framework of a capitalist society it may well be that the labour process is an arena of conflict between opposed economic interests. However the legitimacy of the marginalist abstraction would be defended by arguing that underlying the powers of capital are nevertheless the necessary managerial functions of the co-ordination and direction of the labour process. Some would see the separation of ownership and control as the means of achieving the separation of managerial and capitalist functions and of restoring harmony in the sphere of production. Others would recognise that within a capitalist society management would continue to be subordinate to capital even where ownership and control were separated, and so would propose to check the managerial abuse of power through some form of industrial democracy. Nevertheless economist and social economist would be unanimous in asserting the necessary subordination of labour to managerial authority in the co-ordination and direction of complex production processes. Today they might point to the socialist countries in conclusive support of their argument.

However, Marx's argument is not essentially about what social relations are, or are not, imposed technically by the requirements of advanced

production. Technology can never impose social relations. It is only within particular social relations that things come to take on social powers and that social relations come to take on the appearance of things. The subordination of the productive activity of workers to managerial authority is not an expression of the needs of technology, but of the alienation of labour under which production is subordinated not to the human needs of the producers, but to the need imposed on the producers to reduce labour-time to the minimum. It is not technology that imposes the need to intensify labour; to extend the working day, to replace direct labour by machines and so to subordinate labour to managerial authority, it is the social relations within which technology is applied and managerial authority is exercised that impose the subordination of labour to alien needs. In a capitalist society the labour process has come to be subordinated to the production of surplus-value and it is capital that imposes its needs on the associated producers. However the fate of socialism in the twentieth-century should alert us to the fact that abolition of the private ownership of the means of production is not a sufficient basis for overcoming the alienation of labour in production. Such alienation persists so long as the human activity of workers as producers is subordinated to a need imposed on the workers to reduce their labour-time to a minimum instead of being subordinated to the human needs and abilities of the workers themselves.

The main achievement of marginalism was in developing a rigorous theory of exchange. For classical political economy, exchange was seen essentially as the means of co-ordination of the division of labour. Human needs were given, and served a passive role, determining the structure of production but not determining values. For marginalism, the rationality of capitalism was to be explained not in terms of its securing the expanded reproduction of the wealth of nations, but in terms of its allocation of resources in accordance with the needs of consumers. Exchange does not mediate between successive phases of production; rather it mediates between the individual subject, endowed with given needs and resources, and the objective and parsimonious nature that has to satisfy those needs. Thus it is the subjective needs of the individual, constrained by natural scarcity, and not the objective needs of the production of surplus-value that play the role of motive force in the marginalist system. On the basis of the individual's given needs and resources marginalism establishes that the market will determine an optimal allocation of resources.

Marx argued against the classical theory of exchange that exchange could not be analysed in abstraction from the social relations it articulates. Exchange was not a purely formal process within which individuals exchange things. The things that individuals exchanged were the material expressions of particular social relations. Thus the social determination of the

individuals who exchanged was already implicit in the social determination of their commodities. Exchange was the means by which the social relations of production were regulated in accordance with the requirements of social and economic reproduction. Thus exchange could not be analysed in abstraction from the particular relations of production that were expressed through it. Moreover, far from being the means by which relations of production were rationally co-ordinated, exchange achieved this co-ordination only in an alienated form, through revolutions of value and commercial crises, through the alternation of shortages and gluts, through the pauperisation of some and the enrichment of others. This critique was applicable to the marginalist analysis with added force to the extent that marginalism abstracted even further than classical political economy in taking as its starting point not the system of production but the needs of the individual.

The marginalist individual was defined with given needs and resources in conditions of scarcity. However marginalism abstracted this individual from a particular society. The needs and resources of the individual, and the scarcity that forced the individual to economise, were socially formed and socially constrained. The assumptions of given needs and resources and of a relation of scarcity surreptitiously introduced the social relations of production from which the marginalist model supposedly abstracted. This presupposition was, however, not recognised explicitly, but was individualised and naturalised as the subjective preferences and material resources available to the individual. We clearly need to examine this individual more closely.

The exchange of commodities presupposes that the individuals who enter exchange have different needs and resources, for if everyone was identical there would be no desire to exchange. Thus the very existence of exchange presupposes these social differences.

Moreover if exchange is to be regular and systematic it can only be on the basis of regular and systematic social differences.

As a purely formal relationship, exchange is a relation of freedom and equality, a symmetrical relationship between individuals defined only by their difference from one another. Once this differentiation has been imposed, co-operation through exchange is to the advantage of both parties and so exchange is freely entered into. However the fact remains that the real foundation of exchange, that gives the relationship its content, is the differentiation of the parties to exchange. Thus the content of the exchange relation cannot be reduced to its form, its content is to be found outside itself in the systematic social differentiation that is expressed through, and mediated by, the exchange relation. Different forms of social differentiation will give rise to qualitatively different forms of exchange as a social relation.

The simplest type of exchange, and that which corresponds most closely to the purely formal properties of the exchange relation, is the exchange between independent commodity producers. The presupposition of this simple exchange of commodities is not based on individuals who happen to possess differing commodities, it is an extended division of labour within which the productive activity of the members of society is oriented to, and co-ordinated through, the system of exchange. The relation of scarcity that underlies exchange is not an abstract relation between individuals and nature, for the commodities that enter exchange are not given by nature, they are produced by human labour. The relation of scarcity is a concrete relation imposed by the need to produce in order to meet socially determined human needs. Scarcity is overcome through the application of labour, and labour is the mode of appropriation of the product. The basis of exchange within such a system is therefore the property of the individual in the product of his or her own labour, and this sociological truth is expressed analytically in the labour theory of value.

The model of petty commodity production is of limited practical significance since petty commodity production invariably exists within a society dominated by other forms of social relations of production, whether the customary regulation of the village economy; the monopolistic regulation of the feudal guild system, the system of capitalist commodity production or a State-regulated socialist economy. In any of these cases the analysis of exchange has to be modified to account for these other social relations. The case that concerns us here is that of the social relations of capitalist production, and here the symmetry of the exchange relations between petty commodity producers breaks down.

Capitalism is a developed form of commodity production and so retains the presuppositions of the simple model. However capitalism also presupposes the existence of new commodities, 'productive services', which can serve as the sources of revenues for their owners. For marginalism these revenues are determined in exactly the same way as prices in the simple model of exchange and so the introduction of these commodities necessitates no qualitative modifications to the analysis. Instead of selling the products of his or her own labour the individual sells the services of the appropriate factor of production to the profit-making enterprise and uses the income so derived to satisfy his or her consumption needs.

Although the 'factors of production' appear as commodities, the distinction between them cannot be considered simply as a further stage in the development of the division of labour, for their existence rests on a different social foundation. It rests not on the quasi-technical differentiation of branches of production, but on the forcible separation of elements of production that must necessarily come together for production to take place.

The social foundation of this separation is the dispossession of the direct producers and the concentration of the ownership of the means of production and subsistence in the hands of one class. The class relation between capital and labour is not a result of exchange nor of the fact that some people choose to supply means of production and others choose to supply labour; it is the social presupposition of exchange.

Social economics recognises that the capitalist economy rests on the structured inequality of resources and that the optimality of the allocation that results from exchange can only be defined on the basis of a given initial distribution. It therefore recognises that the *formal rationality of exchange* is achieved at the expense of the *substantive irrationality of inequality*. However such inequality is legitimated as the necessary, and worthwhile, price that has to be paid for the efficiency of capitalist production and exchange. However the abstraction of exchange from the distribution of the means of production on which this argument is based is illegitimate. The distribution of the means of production is not merely the external presupposition of exchange, a question of the social and historical context of exchange, it is a question of the character and rationality of exchange itself, for it is through exchange that the distribution of the means of production is reproduced.

The labour-power and the means of production that are appropriated through exchange are consumed in the process of production. The reproduction of the capitalist economy therefore depends on the reproduction of labour-power and the means of production, and on the reproduction of the separation of the labourer from the means of production. The initial inequality of distribution is therefore not a sufficient condition for the reproduction of the capitalist mode of production. That inequality must in turn be reproduced. This brings us to the theory of distribution. The reproduction of labour-power (or the 'productive services' of labour) depends on the physical reproduction of the labourer. The means by which the labourer reproduces him or herself are the commodities purchased out of the wages that he or she receives in payment for his or her labour-power. According to the marginalist wages are determined by the supply of and demand for labour-power. The demand is determined by the productivity of labour as a factor of production, the supply by the subjective preference of the labourer for income as opposed to leisure. However the limits within which wages are determined are not set by the interaction of personal preference and technical constraint. The income needs of the labourer are not matters of taste; they are socially constrained. The labourer has an objective need for a certain level of income simply to sustain a socially conditional level of subsistence. However, the labourer has not merely to reproduce him or herself physically, but has to ensure that he or she has the qualities

required to fulfil a particular role in production, as a particular kind of labourer, within a context defined socially by the conditions of labour. The labourer's needs for income and leisure are not defined exogenously, as in the marginalist model, they are defined by the need socially imposed on the labourer, and mediated through the labour market, to reproduce him or herself as a particular kind of worker. Consumption choices express not subjective tastes but social constraints imposed by the status of wage-labourer.

On the other hand, the physical reproduction of the labourer is not a sufficient condition for the social reproduction of the labourer as a wage-labourer. If wages rise significantly above the socially determined subsistence level there will be no compulsion on the labourer to return to work for the next period. The form of the wage-relation therefore not only determines the needs of the labourer as a consumer, it also determines that the relation between those needs and the labourer's resources will be a relation of scarcity. The capitalist system of production, far from representing the most rational means of resolving the problem of scarcity, depends on the reproduction of scarcity, whether by the restriction of wages or the inflation of needs.

The demand for labour-power is no more determined by technical considerations than is the supply determined by subjective preference. Labour-power will be purchased by the capitalist so long as the marginal productivity of labour exceeds the wage. However the marginal productivity of labour is not a technical but a value-magnitude, measuring the additional revenue the capitalist can realise by the employment of one more unit of labour. Thus the determination of the demand for labour-power by the marginal productivity of labour simply expresses the fact that labour-power will not be employed if wages rise above the level at which the capitalist is able to produce and realise surplus-value.

The labour-market does not achieve the reproduction of capitalist social relations smoothly and harmoniously. In the course of capital accumulation some workers find employment, while others are thrown out of work as new processes are introduced. If the accumulation of capital runs ahead of the supply of labour-power so that a condition of full employment is achieved the bargaining position of the labourers will improve, wages will rise and the authority of the capitalist in the labour process will be eroded. The decline in profitability will eventually precipitate a crisis as backward capitals are bankrupted, investment is curtailed and workers thrown back into the reserve army of labour. The labour-market, far from being the means by which individuals freely make choices between income and leisure subject to the technical constraints of labour transmitted through the market, is the means by which the labourer is subordinated to capital and labour-power

reproduced as a commodity, condemning the labourer to alternating periods of overwork and unemployment, subsistence wages and abject poverty. The formal rationality of the market as a system of allocation cannot be considered in abstraction from its substantive irrationality as the means of reproduction of capitalist class relations.

The market is also the means by which the reproduction of capital is mediated. Capital does not have an inherent capacity to reproduce itself. If it is spent in consumption it will soon be exhausted. If it is put under the mattress it will remain intact, but will not produce any revenue. How then does capital acquire the power not merely to reproduce itself but to reproduce itself on an increasing scale?

Marginalism and its successors have devoted a considerable proportion of their intellectual energies to the attempt to develop a naturalistic theory of profit that can explain the self-expansion of capital within the marginalist framework. The versions of the theory of profit proposed are many and varied, and here we can only outline the issues at stake. The basic approach is to identify the source of profit in the marginal productivity of capital, and to determine its magnitude in association with the subjective time-preference of the individual economic actors. Although it can be shown to be the case, under appropriate assumptions and within the marginalist framework, that the equilibrium rate of profit will equal the 'marginal productivity of capital' and the 'marginal rate of substitution' of present for future goods, the issue is the explanatory value of such an equation.

Wieser, in his *Social Economics*, sought to establish the foundations of profit in the physical productivity of capital in the 'simple economy'. To define capital in the simple economy it is necessary to 'eliminate from the current, practical concept every reference to the pecuniary form of capital and to private property. Every suggestion of capitalistic power and exploitation of workers must be banished.' Thus capital must be defined in physical terms as natural economic capital, that is, as produced means of production acting within the process of economic reproduction. Profit is then explained by the contribution made to production by natural economic capital. Thus 'the productivity of economic capital is primarily physical' and 'the rate of interest is nothing more or less than an expression of the marginal productivity of capital... It indicates the utility cost which might be obtained by other uses of cost-capital' (Wieser, *Social Economics*, pp. 62, 133, 138).

The argument has a certain intuitive plausibility, for we are accustomed to think of the means of production as 'productive'. However, intuition here rests on ideological familiarity and not on reason, for the idea of the physical productivity of the means of production, independent and distinct from that of labour or land, is not something that has any meaning. Jevons was well aware of this, and of its implications:

we must regard labour, land, knowledge and capital as conjoint conditions of the whole produce, not as causes of a certain portion of the produce. Thus in an elementary state of society, when each labourer owns all three or four requisites of production, there would really be no such thing as wages, rent or interest at all. Distribution does not arise even in idea, and the produce is simply the aggregate effect of the aggregate conditions. It is only when separate owners of the elements of production join their properties, and traffic with each other, that distribution begins, and then it is entirely subject to the principles of value and the laws of supply and demand. Each labourer must be regarded, like each landowner and each capitalist, as bringing into the common stock one part of the component elements, bargaining for the best share of the product which the conditions of the market allow him to claim successfully. (Jevons, S., *The Theory of Political Economy*, Penguin, Harmondsworth, 1970, Preface to Second Edition, pp. 68–9).

Thus it is impossible to define profit independently of the existence of exchange and of capitalist social relations.

Although profit only exists within capitalist social relations, it may be possible to abstract from those social relations in the determination of profit if profit can be given a naturalistic, if not a universal, foundation. Jevons believed that he could achieve this on a different foundation from that of the physical productivity of the means of production. His theory was developed by Böhm-Bawerk.

Böhm-Bawerk argued that profit cannot be attributed to the means of production, for the means of production are simply commodities that are used in production and there is no reason why their use should in itself yield a surplus. Capital is used to buy labour and commodities that have been produced by previous applications of labour. According to the marginalist model, labour has already been paid for its contribution to production, while commodities have likewise been bought at their value. Hence there is no reason to believe that the mere consumption of these commodities will yield a surplus, while the consumption of other commodities does not. Moreover capital is not a physical magnitude, but a sum of value and its magnitude is determined, among other things, by the rate of profit. The magnitude of capital cannot therefore be specified independently of the formation of the rate of profit. The overall conclusion is that theories based on the marginal productivity of the means of production cannot give profit a naturalistic foundation.

Böhm-Bawerk tried to get around this problem by arguing that capital was not an independent factor of production, but could be reduced to the past contributions of the original factors of production, land and labour. Profit

arose not on the basis of the supposed physical productivity of the means of production, but on the basis of the time taken for a process of production to be completed. The essential form of capital was not the means of production, but the fund of means of subsistence that was required to sustain the labour force for the duration of the process of production. It was this fund that was advanced as capital. The time for which a given capital would have to be advanced would depend on the 'roundaboutness' of the method of production. On the other hand, the more roundabout method of production may be more productive. For example, productivity may be increased by spending time initially on making more sophisticated means of production instead of producing immediately with direct labour. The existence of a subsistence fund, as the natural form of capital, would make it possible to engage in more roundabout, and so more productive, methods of production. The owner of the subsistence fund would make it available to the workers in return for a profit which would correspond to the productivity of more roundabout methods of production. The workers, on the other hand, would offer the owner of the subsistence fund a profit because their produce would be increased by more roundabout methods of production.

The Jevons-Böhm-Bawerk approach to the productivity of capital is certainly superior to that of Wieser, but it does not avoid the fundamental problem of all such approaches. The problem is that the definition of the 'period of production' necessarily involves the cumulation of labour-inputs over time, and this cumulation has to be carried out on the basis of a given rate of profit. Production periods can therefore only be specified for a given rate of profit, and the presupposition of capitalist social relations is introduced into the heart of the theory. Thus this theory falls on the same grounds as did the theory that attributed profit to the physical productivity of the means of production.

It is certainly the case that some methods of production are more productive than others, and, under certain conditions, it may be possible to specify the relative productivities of different methods of production. However, in general it is necessary to reduce outputs and inputs to a common standard to measure productivity and this standard can only be a value-standard so that the productivity of different methods of production cannot be specified in physical terms but only in terms of value. This is, of course, appropriate since the aim of capitalist production is the maximisation of profit, not physical productivity. Thus the concept of the physical productivity of the means of production or of more roundabout methods of production is a concept that has no meaning. It is impossible to specify the productivity of different methods of production in abstraction from capitalist social relations. Moreover, it is only under capitalist social relations that this

productivity is attributed to capital so as to correspond to a rate of return on capital.

The means of production, or the subsistence needs of the workers, are not in themselves capital. It is only within particular social relations that the monopolisation of the means of production and subsistence becomes the means by which one class manages to appropriate a portion of the social product. The capitalist class is only able to appropriate a portion of the social product because it is in a position to advance the means of production and subsistence to the workers. The capitalist class is able to do this and the working class is only able to work on this condition, because the capitalist class has monopolised the means of subsistence and production. This monopoly is in turn reproduced through the exchange relation between the capitalist class and the working class within which the capitalist class appropriates that part of the social product that is surplus to the subsistence requirements of the worker in the form of profit. The substance of the capitalist system of exchange is not reducible to the formal exchange of goods and services between individuals; it is the means of reproduction of a class relation that is based on inequality and exploitation, and is inseparable from that relation.

The theory of capital is only one side of the theory of profit. It supposedly explains the source of profit, but cannot alone explain its magnitude. Why does not investment proceed until the rate of profit falls to zero? To explain the magnitude of profit we have to refer to the supply of capital. The marginalist answer is that saving is the source of capital and that saving is based on a choice between present and future consumption. If people value present goods more highly than the same goods in the future, they will demand a positive rate of return as the incentive to save. The supply of capital is therefore limited by this 'time-preference', which provides the subjective motive for saving to which interest corresponds as a reward.

Most explanations of this time-preference are gratuitous and often implausible psychological explanations. In general there is no more reason to expect psychological time-preference to be positive rather than negative; *deferred gratification* is as plausible a psychological phenomenon as the overvaluation of present satisfactions, while uncertainty is as likely to stimulate immediate consumption as it is to stimulate provision for the future. If individuals expect to be better-off in the future present goods will have a higher marginal utility than future goods, so that far from deferring consumption individuals will be prepared to borrow at interest to finance present consumption. The fundamental weakness of the theory of time-preference is that it is wholly unrealistic as a theory of the supply of capital. It may be appropriate to the marginal decisions of households between saving and consumption, but the characteristic source of new capital is

previous profit, and the motivation of profit-making is not the provision of future means of consumption, it is profit-making for its own sake. The allocation of resources between the needs of present and future consumption presupposes a relation of scarcity that is not characteristic of the relation of the capitalist to the means of consumption. Moreover the reproduction of the capitalist system requires the accumulation of capital for its own sake; if capitalists sought to realise their capital by buying means of consumption the system would break down. From the point of view of the marginalist individual an orientation to profit-making for its own sake is irrational. However such an orientation is imposed on the capitalist by capitalist competition, for it is only by constantly transforming the methods of production, introducing new technology and new work practices, that the capitalist is able to keep his capital intact. Thus the motivation of capitalists is not an aspect of their irrational subjective orientation, it is imposed on them by the reproduction of the capitalist system, no less than is the motivation of workers.

The marginalist analysis of capitalist economic relations seeks to abstract the quantitative determination of economic magnitudes from the form of capitalist social relations. This abstraction is characterised by the abstraction of the individual economic actor from the social relations within which that individual acts. However we have seen that such an abstraction is illegitimate. On the one hand, the consumption needs and subjective preferences of the individual are determined by the social function of the individual within the reproduction of capitalist social relations. The reproduction of these relations reproduces the relation of scarcity between the worker and his or her means of consumption and the need to renew him or herself as a particular kind of worker. It reproduces the relation of abundance between the capitalist and the means of consumption on an increasing scale and imposes on the capitalist the need to sustain the accumulation of capital. On the other hand, the resources of the individual economic actors cannot be characterised in purely physical terms, in abstraction from the social relations of capitalist production. It is these social relations that determine labour-power and capital as commodities and that determine their ability to serve as sources of revenue. The individual economic actor cannot be seen as the subject of the capitalist system, but only as the agent of its reproduction. The actors' needs, resources and motivation are subordinated to that reproduction, and the market is the means by which that subordination is reproduced.

Correspondingly the institutions of capitalist society cannot be seen as expressions of the rationality of the economic actor. Capitalism is not a system of production rationally adapted to the overcoming of scarcity and the satisfaction of human material needs. It is a system of production that is

oriented to the accumulation and expanded reproduction of capital. The institutions of production and exchange are subordinated to the production and realisation of surplus-value and to the reproduction of the social relation between labour and capital. Moreover the constant development of methods of production to increase the productivity of labour and so potentially to alleviate the relation of scarcity between humanity and nature is not subordinated to human needs and aspirations, but to the accumulation of capital which in turn presupposes the reproduction of the mass of population in that constant state of need which is the basis of their dependence on capital. Capitalist accumulation, whose form is the constant overcoming of natural barriers to the satisfaction of human wants, depends on the reproduction of social barriers to that satisfaction. Its content is the reproduction of social relations based on an ever-increasing polarisation between superabundance and want.

Despite its ideological limitations, marginalist economics is not devoid of all scientific value. On the basis of the hidden presupposition of capitalist class relations it conducts a rigorous, if abstract, investigation into the formal properties of the exchange relation, a problem to which neither Marx nor classical political economy systematically addressed themselves. To this extent marginalism, like early vulgar economy, 'does not find the material fully elaborated and therefore assists to a certain extent in solving economic problems from the standpoint of political economy' (*Theories of Surplus Value*, 3. pp. 501–2). However it can solve such problems only to the extent that it is legitimate to abstract consideration of the formal properties of exchange from consideration of the social relations that are articulated through the exchange relation and give exchange its substantive content. The limits of the validity of marginalist economics are therefore set by the theory of value and of surplus value that establish the limits of validity of such abstraction and so give significance to its results.

7

From Marginalism to Modern Sociology

Economic theory, social economics and the tasks of sociology

The essential feature of marginalist economics is its pure theory of the exchange economy that conceptualises the fundamental institutions of capitalist society as the rationally adapted means to the provision for individual needs in accordance with individual preferences. This theory establishes at an abstract level the ideal rationality of capitalist society.

We have seen that marginalist economics completed the naturalisation of capitalist social relations that had been partially achieved by classical political economy, by abolishing the classical theory of distribution and so eliminating the concept of class from economic analysis. The theory of class now becomes the preserve of sociology.

The marginalist rejection of the classical theory of distribution in favour of an harmonious theory of functional interdependence did not come out of the blue. Similar ideas had already been put forward by the vulgar critics of classical political economy. Marginalist economics brought the tradition of vulgar economy to fruition by giving it the rigour and determinacy that it had hitherto lacked. In doing so, marginalism could also provide a rigorous foundation for the sociological and historicist theories put forward in opposition to classical political economy. Sociology and historicism developed on the basis of a rejection of the naturalism of the classical theories of distribution and exchange according to which class relations were regulated by natural laws, and free competition was an unqualified good, in favour of a pragmatic approach to capitalist society that considered economic relations within their specific social and historical context. However, we have seen that these theories rested on the postulate of the ideal harmony of capitalist social relations, rejecting only the classical belief that such a harmony could be achieved spontaneously by the free play of market forces. They counterposed to political economy speculative theories of the ideal capitalist society within which the conflict of interests was subordinated morally or politically to the harmonious integration of a functionally interdependent whole. The problem that none of these theories could resolve, which became practically very pressing towards the end of the nineteenth-

century, was that of determining the specific content of this moral and political regulation; there was no theory that could define the factor-rewards appropriate to such an harmonious society. The assertion of an ideal harmony remained an empty metaphysical postulate in the absence of such a theory and in the face of intensifying class conflict. Marginalist economics provided that theory.

The relationship between marginalist economics, nineteenth century sociology and historicism was not merely a theoretical one. Many of the marginalists came to economics specifically in order to give a rigorous foundation to sociology and to historicism. It should not be surprising to find a relationship between vulgar economy and marginalism, and we have seen that both Menger and Walras saw their work as bringing rigour to the vulgar tradition. Nor should it be surprising to find the influence of Spencer. Jevons formulated his economics within a Spencerian framework, while Wieser was inspired to turn to economics by reading Spencer. However we also find Walras formulating his economics within a reformist framework that owed much to Comte and St Simon, while Wicksteed came to marginalism from Comte and Henry George. Alfred Marshall had studied moral sciences and saw economics as a continuation of those studies. Thus marginalism developed not in opposition to the sociological and historicist traditions, but as an essential complement to them, providing the rigorous foundation that they had hitherto lacked.

The complementarity of marginalism, on the one hand, and sociology and history, on the other, was not immediately apparent, not least because some of the pioneers of the marginalist revolution used the new theory to assert the virtues of a regime of *laissez-faire* against the claims of social reform. Thus Jevons was engaged in constant polemic with sociologists and social reformers, while Menger was involved in an acrimonious methodological debate with Schmoller, the *Methodenstreit*. While the debate between economics, on the one hand, and sociology and history, on the other, remained a debate between economic liberalism and social reform the two schools of thought found themselves implacably opposed to one another, each asserting its own exclusive claims. However, by the 1880s the debate had been resolved in favour of reform in Austria, Germany and Britain. In Austria, trade unions had been legalised in 1867 and 1869, and a comprehensive programme of social reform was inaugurated in 1879. In Germany, the failure of the Anti-Socialist Laws of 1878 to check the advance of the Social Democratic Party gave way to a commitment to social reform in the 1880s. In Britain, the cause of social reform advanced rapidly in the 1870s and 1880s.

By the 1890s it was clear that social and political reform in Britain, Austria and Germany had succeeded in establishing a constitutional and political

framework within which the working-class could be persuaded, at least for the moment, to pursue its political aims peacefully and constitutionally. The reformers were triumphantly vindicated. However, once the success of reform was generally accepted the terrain of debate shifted. The most pressing issue was not that of whether or not to introduce social reform, legalise trade unionism and admit sections of the working class to the suffrage. The issue was now how far should such reform go? Although revisionism was triumphant in the German Social Democratic Party, while Lib-Labism gave way to Labourism in Britain, the working-class had not abandoned the class struggle; it had merely consented to pursue its aims within the existing constitutional framework, induced to abandon any revolutionary aspirations by the carrot of reform, pursuing its economic interests through increasingly powerful trade unions, on the one hand, and its growing electoral strength, on the other. While economists had to concede exceptions to the *laissez-faire* principle, particularly in the determination of the terms and conditions of labour, sociologists and historicists had to concede that the discipline of the market must continue to have a major role to play if the advance of the working class was not to compromise the continued existence of capitalism. Sociology and historicism were powerful weapons in the struggle for reform, and they were powerful weapons in the political resistance to the socialist challenge. However they had no means of setting limits to reform, they had no principled basis on which to define the limits of trade-unionism or of State regulation. It was at the point at which the setting of such limits assumed central political importance that the opposition of sociology and historicism to economics began to break down. Thus, although marginalist economics was complementary to sociology and history, it took some time for the relationship to be worked out and for a stable intellectual division of labour to be established. The development of modern sociology was a long drawn-out process, and involved setting limits to the claims of the economists and reinterpreting established traditions.

The first important stage in this process was the development of social economics. The pure theory of the exchange economy assumes that the pursuit of economic interest is checked by competition and so it abstracts from the fact of economic power which arises on the basis of the unequal distribution of resources. This inequality puts the workers at a considerable disadvantage in bargaining with their employers who are able to use their power to impose low wages; to intensify labour, to neglect the health and safety of their workers and to hire and fire at will. The result is the poverty, ignorance, moral and physical degradation of the workers. In order to counter the tyrannical power of their employers and to equalise the wage-bargain workers associate in trade unions to pursue their interests collectively, while employers respond by forming their own associations. The concentration and

centralisation of capital brings with it a growing class-polarisation of society that in turn calls forth a movement for social reform that can defuse this conflict by introducing protective legislation to counter the power of capital and to limit the ambitions of trade unions.

By introducing the concept of economic power, social economics reintroduces the concept of class that had been expelled from the pure theory of the capitalist economy by the marginalist revolution. The concept of class employed here is quite different from the concept developed by classical political economy and by Marx. In the latter theories the social relations of capitalist society were necessarily class-relations, the concept of social class defining the objective basis on which the individual participates in society by defining the point of insertion of the individual into the social relations of production, distribution and exchange. The marginalist revolution abolished the classical theory of distribution, and so expelled the concept of class from economics in favour of a purely individualistic concept of economic relations. The concept of class now appears at a lower level of abstraction, becoming essentially a sociological concept in the sense that it now characterises particular social groups that arise out of the free association of individuals on the basis of their perception of a common economic interest. It is now economic interest that underlies the formation of classes, not the existence of classes that underlies the conflict of interest. Common economic interest can in principle be found in any situation in which the fate of a number of individuals depends on the terms of the purchase or sale of a given commodity, so there is no reason to limit the application of the concept to capitalists and workers as a whole.

From this standpoint, physicians and officials, e.g., would also constitute two classes, for they belong to two distinct social groups, the members of each of these groups receiving their revenue from one and the same source. The same would also be true of the infinite fragmentation of interest and rank into which the division of social labour splits labourers as well as capitalists and landlords — the latter, e.g., into owners of vineyards, farm owners, owners of forests, mine-owners and owners of fisheries (*Capital*, III, p. 863).

Within the framework of marginalism classes arise not on the basis of the relations of production, as in Marxism, nor on the basis of the relations of distribution, as in classical political economy, but on the basis of exchange relations. A class arises on the basis of the appreciation of a common interest in the purchase or sale of a particular commodity as a means of seeking to improve the terms on which that commodity is traded to the advantage of that class. A class conflict is the socially organised manifestation of the

conflict of interest that is inherent in any exchange as each party seeks to achieve exchange on the most favourable terms.

The ideological and political implications of this displacement of the concept of class should be clear. The immediate implication is that class conflict is no longer fundamental to capitalist economic relations, but rather is a superficial disturbance that arises as special interests seek to subvert the competitive process to their own ends. For the economic liberal the formation of classes, and the consequent class conflict, is entirely illegitimate, and the State is required to legislate to prevent the formation of agreements in restraint of trade by means of which classes seek to pursue their ends. For the reformist the imbalance of resources between labour and capital requires some correction which may justify the association of workers in properly regulated trade unions in order to achieve a countervailing power. The Fabians went further still in believing that it was impossible to prevent the abuse of economic power so long as capital remained in private hands. This did not lead the Fabians to reject marginalist economics. For the Fabians Wicksteed's marginalism showed the possibility of a rational economic system and countered the Marxist theory of class exploitation. Thus the Fabians proposed that the State should peacefully assume the functions of capital in order to achieve in reality the marginalist ideal. The Fabian's State capitalism did not involve any fundamental transformation of social and political relations, but simply a transfer of given functions from capitalists to managers and administrators. In France and Germany considerable importance was attached to the preservation of the middle-class and particularly of small rural producers, in the face of capitalist competition, by the provision of credit, the formation of rural co-operatives, the reform of tenancy laws and by protective legislation. In all these cases, however, the theoretical framework is the same. Social classes and class conflict only arise to the extent that the operation of the market is imperfectly competitive. They are not expressions of the fundamental character of capitalist economic relations but rather imperfections hindering its smooth operation.

Social economics went beyond the abstractions of the pure theory of the exchange economy by introducing the concept of economic power. However this concept alone, important as it is, was hardly a sufficient foundation on which to build a sociology. Social economics continued to be a branch of economics, rather than of sociology, in resting on the assumption that social action can be explained as an expression of the rational self-interest of the individual. On the one hand, an economic sociology was required that could explain the normative regulation of rational economic action by exploring the formation of Wieser's 'social egoism', Comte's 'social love' or Smith's 'moral sentiments'. Such an economic sociology would also have to explore the character and determinants of economic power and the formation of

social classes. On the other hand, social economics provided no means of understanding the consequences of social action not oriented solely to economic ends. In particular social economics had no means of dealing with the State and political power. The State was called on to implement a programme of social reform and to regulate the class struggle as though it were some neutral benevolent institution standing above society. However the State was itself an object of class struggle and of intense political debate as to its proper role. Socialists on the one side threatened either to destroy the State or to use it to abolish capitalism. On the other side, monopoly capital threatened to subordinate the State to its own ends, backing its resistance to the demands of the working-class, furthering its advance at the expense of smaller capitalists and petty producers, pursuing its imperialist aims in the colonies, and threatening to drag the nation into interimperialist wars. Social economics helped to clear the space for modern sociology, but that space had still to be filled.

Max Weber and the German Historical School

It was Max Weber, more than anyone else, who defined the relationship between marginalist economics on the one hand, and historical and sociological investigation, on the other. It is in this sense that we can see Weber as the true founder of modern sociology in that it was he who defined their respective fields for both economics and sociology, establishing the limits of economics and defining the space to be filled by sociology. Max Weber was born in 1864 and was trained in law and economics within the tradition of the German Historical School. He was a member of the *Verein für Sozialpolitik* from 1888 until his death in 1920.

The older generation of the *Verein*, led by Schmoller and Adolph Wagner, favoured the Bismarckian approach to social reform, believing that class conflict was a pathological phenomenon that could be suppressed by the State, while the condition of the working class could be ameliorated within a paternalistic and bureaucratic framework of social reform and political regulation of the economy. Such an approach proved to have severe limitations. While bureaucratic regulation stifled economic initiative and so restricted the expansion of the German economy, the Social Democratic Party, although illegal, was advancing from strength to strength. Junker domination of the Prussian State meant that the expansion of capitalist agriculture, and the consequent proletarianisation of the rural population, was advancing with little restraint, with potentially disastrous political consequences. Thus the younger generation of the *Verein*, of which Weber was a part along with Sombart, Tonnies and Brentano, rejected the conservative approach.

The younger generation believed that the rise of social democracy could not be attributed to exceptional causes, but had to be explained on the basis of the existence of a fundamental opposition of class interests within capitalist society and of the tendency for classes to organise in order to further their interests. Marxism had an obvious theoretical appeal to some of the younger generation although they rejected Marxist political conclusions on the basis of neo-Kantian arguments about the separation of fact and value: Marx was right to draw attention to class conflict as a central feature of capitalist society, but his theory could not dictate how that conflict ought to be resolved. The younger generation therefore rejected socialist solutions, which they saw as suffering from the same defects of bureaucratism as did conservatism, and sought instead to establish the political conditions under which the class struggle could be regulated and subordinated to national ethical and political goals. Thus the recognition of the existence of class struggle did not compromise their adherence to a fundamentally liberal theory of capitalist society or to liberal solutions to the social problems to which capitalism gave rise. While the older generation placed their faith in the neutrality and rationality of the Prussian bureaucracy, the younger generation saw the bureaucracy as self-interested and as morally and politically stultifying. The younger generation therefore favoured the liberalisation of State policy, freeing capital from the more restrictive burdens imposed on it, and looking to properly regulated trade-unionism and, to some extent, constitutional reform, as the means of assimilating the working class.

In their concern for social reform as the alternative to revolution the younger generation of the *Verein* found much in common with the revisionist wing of social democracy that sought to divorce the reformist activity of social democracy from its revolutionary political rhetoric, a position that looked to Fabianism and to marginalist economics for theoretical support. For the younger generation of the *Verein* trade-unionism and co-operation had lost their menacing appearance and could offer a basis on which the working-class could acquire the most *petit-bourgeois* of moral qualities and through which the working-class could be incorporated into a national ethical and political framework. The younger generation therefore sought to reconcile the existence of economic conflict between the classes with the ethical and political consensus on which a liberal State had to rest. It was clear that neither the free market nor a corporatist or socialist bureaucracy could provide a satisfactory framework within which conflicts of economic interest could be resolved. Thus the younger generation of the *Verein* was preoccupied with the complementary issues of the nature and limits of the free market, on the one hand, and the nature and limits of the liberal State, on

the other. This generation saw in Max Weber their most outstanding spokesman.

Weber's early work was very much within the mainstream of the Historical School. His first published works were two theses on medieval trading companies and on the agrarian history of Rome. Although Weber was hailed by the great classical scholar Theodor Mommsen as his true heir, he came to believe that contemporary ethical and political problems could not really be solved by drawing lessons from the fate of Rome and he turned his attention to the direct study of contemporary society and began to look in different directions for his comparative material.

The most interesting of Weber's early work, at least for the light it throws on his own orientation, is the research that he conducted under the *aegis* of the *Verein* on 'The conditions of rural labour in Germany beyond the Elbe', published in 1892. This research was ostensibly a study of the impact of capitalist development on the rural social structure of Eastern Prussia and showed how the expansion of capitalist agriculture had eroded patriarchal relations in agriculture, reducing the labour force to a rural proletariat. Under the impact of such a development the Prussian rural workers were emigrating to the towns and were being replaced by Polish peasants, who were prepared to work for lower wages and under conditions of abject subordination to their employers. Such a development was hardly unique to Prussia, nor was Weber by any means the first to observe it. The importance of Weber's contribution lies not in its substantive content so much as in the lessons Weber drew from his study, which indeed motivated it in the first place.

For Weber the development of capitalism in rural Prussia was undoubtedly progressive if evaluated in purely economic terms. However, economic criteria alone were not sufficient to evaluate social developments or policies to modify such developments. Thus the development of capitalism was increasing the productivity of agriculture, fostering the accumulation of capital and enriching the ruling Junkers, but it was doing so at the expense of the ethical and political foundations of the nation. The sturdy, independent Prussian peasant, whose moral qualities had contributed in no small way to the virtues of the Prussian State, was being eliminated, replaced by a dependent workforce of much inferior cultural quality which was prepared to work under the most exploitative and degrading conditions. Moreover this new workforce was not only culturally inferior, it was also culturally alien and so a potential fifth column in the event of political or military threats from the East. Finally, the development of capitalism, in undermining patriarchal relations in agriculture, was establishing the conditions for the growth of class conflict in the countryside. The development of capitalism in rural Prussia was therefore strengthening the Junkers economically, while turning the Junkers into a section of the capitalist class, but it was eroding the

ethical and political foundations of national security in the most sensitive eastern border regions.

The conclusion was, that on the one hand, the degeneration of the Junkers to a section of the capitalist class meant that their political rule was now that of a self-interested clique the consequences of which would prove catastrophic to the national interest. On the other hand, Weber found it difficult to see in the *bourgeoisie* a class that could provide the political leadership for a truly national policy, putting the political interests of the 'power state' above sectional interests. Such leadership would have to regulate capitalist development in accordance with national political and ethical ideals and in particular to regulate the capitalisation of agriculture by closing the eastern border and by resettling Germans as protected agrarian petty producers.

Weber's study of the Prussian peasant closely links Weber's own political and theoretical concerns with the traditions of the *Verein*. His study not only anticipates his own later work; it also embodies all the central themes of the political and academic orientations of the *Verein* — the subordination of academic research to pressing political concerns; the insistence on the primacy of ethical and political criteria in the evaluation of economic policy; the emphasis on the priority of national over sectional interests; the focus on the State as the embodiment of the nation; the nostalgic evocation of patriarchal relations; the insistence on the positive ethical virtues of *petit-bourgeois* morality and the political necessity of sustaining a strong and independent *petit-bourgeoisie* as the basis of a powerful national State. Despite this Weber was never entirely at home in the *Verein*, although his differences did not really emerge into the open until after his recovery from a serious nervous breakdown at the turn of the century.

Weber's critique of the *Verein*, and more generally of the German Historical School, was made explicit in a series of methodological essays largely written as he emerged from his breakdown. Weber's arguments in these essays are often close to those of Menger which precipitated the *Methodenstreit*. However, Weber did not simply abandon the methodological prescriptions of the Historical School for the scientific methodology of marginalist economics. On the one hand, the positions Weber developed in his methodological writings were at least to some extent already implicit in his historical works. On the other hand, Weber achieved what many have seen as a methodological synthesis of the positions of the contending parties. However, if there is a synthesis, its basis is definitely on the Austrian side of the divide. Thus on the two essential and fundamental points of difference Weber aligns himself unequivocally with Menger, on the one hand, in the insistence that economics is not an ethical science, in the sense that it cannot give rise to ethical prescriptions but must be conducted on a strictly objective

basis and on the other hand, in the insistence that historical interpretation presupposes that the social sciences have an analytical core in the form of a pure theory of typical relationships.

Weber had never been happy about the subordination of the work of the *Verein* to particular political ends. While he endorsed the emphasis of the *Verein* on conducting research that was 'value-relevant', that would inform contemporary ethical and political debate, he insisted that the research itself had to be conducted with a scrupulous regard for objectivity and that the results of the research could not impose particular ethical or political conclusions. Research could provide only the facts that could inform debate. To reach ethical conclusions it was necessary to judge those facts in accordance with chosen ethical criteria. The argument was extremely disingenuous, however well-intentioned, for while the facts might never be able to impose a particular judgement, they could certainly be formulated in such a way as to leave little room for serious choice.

Problems of methodology: Menger and Weber

The most important methodological contribution made by Weber concerns the role of theory within the social sciences, and here again his position is much closer to that of Menger than it is to the Historical School. To bring out the relationship I shall present Weber's views in relation to those of Menger.

Menger wrote his *Problems of Economics and Sociology* as a counterblast to the Historical School's rejection of the abstraction of classical political economy. Menger recognised the justice of the critique of classical political economy, which he agreed was too abstract to provide a sufficient 'basis for the practical sciences of national economy, and thus also of practice in this field' (Menger, *Problems*, p. 27). However the failings of classical political economy should not lead to a condemnation of all abstraction in the name of a purely pragmatic approach to the facts. Such pragmatism could for Menger lead only to socialism as the Historical School's enthusiasm for reform sponsored by the State was untempered by any adequate theory of the limits of reform or of the nature of the State. Without such a theory State intervention is proposed as the solution to every social problem until the whole of society is engulfed by the State.

Menger argues that the proper response to the failures of classical political economy is not to reject theory but to construct a more adequate theory on the basis of a clear recognition of the abstract character of such a theory and of the distance that separates theoretical abstraction from concrete historical understanding. Thus Menger distinguishes the theoretical from the historical and practical sciences. Historical understanding is related to an individual process of development, whereas theoretical understanding subsumes the

event under a law of succession or of coexistence that is derived from a theory, in this case of the economy. The two are distinct because the theory is necessarily abstract, concerned with 'the general nature and the general connection of economic phenomena' (Menger, *Principles*, p. 37).

The distinction between the historical and the theoretical orientations for Menger corresponds to a distinction between the methods of the inductive elaboration of empirical laws and the deductive elaboration of theoretical statements. The theoretical orientation establishes exact laws that 'simply bear within themselves the guarantee of absoluteness', being based on the deductive elaboration of the 'simplest elements of everything real, elements that must be thought of as strictly typical just because they are the simplest'. The exact theory of economics, therefore, comprises what would nowadays be called a hypothetico-deductive elaboration of 'an analytically or abstractly conceived economic world' (Menger, *Principles*, pp. 59–60, 73). The exact laws formulated in this theory are to be distinguished from empirical laws, and they do not depend on empirical laws for their confirmation. Indeed they cannot be confirmed empirically because they are abstract idealisations that rest on certain presuppositions that may never apply in reality.

The typical forms on which theory is based can never give rise to a full understanding of reality since the 'types' represent an idealisation of reality, their 'phenomenal forms' not necessarily corresponding to the infinite complexity of the corresponding 'empirical forms'. Thus in reality different examples of the same phenomenon are never identical, so that an historical orientation that seeks to grasp the individual process of development can never rest content with theoretical knowledge of ideal typical relations, but must seek the empirical relations between 'real types'. For this reason Menger strongly opposed the mathematical formulation of economic theories since this gave to economic relations an exactness that they never enjoyed in reality. Thus Menger, like Marx and for similar reasons, proliferated concrete arithmetical examples rather than attempting to achieve a spurious generality through algebraic formulation. On the other hand, Menger argued that the historical orientation could never get beyond empirical relations and so could never achieve more than the knowledge of contingent empirical laws.

Since theoretical argument is based on abstraction from, and idealisation of, reality, it always seeks to understand reality from a particular point of view. Thus economics seeks to understand reality from the point of view of the 'precautionary activity of humans directed towards covering their material needs' (Menger, *Principles*, p. 63). Theoretically the economic aspect of phenomena can be studied in abstraction from all other aspects, although historically the economy can only be understood in connection with the total life of a nation. Thus historical understanding rests on the contributions of the totality of the social sciences 'no one of which teaches us

to understand full empirical reality' (Menger, *Principles*, p. 62). The abstraction of economics is legitimate and fruitful not because the economist believes the 'dogma of self-interest' (Schmoller), but because economic provision in accordance with the individual's own well-being is among the most common and most important human efforts and impulses.

Theoretical knowledge is the necessary foundation of the historical orientation. Although the historical orientation aspires to knowledge of the singular sequence of events, the basis of such knowledge can only be the typical forms elaborated in theory. Although the simple types, and the laws by which complicated phenomena are built up from the simplest forms, are abstract and universal, historical investigation constantly reveals new empirical variants of these types and more complex elaborations of the simple types. Thus the absolute character of theoretical understanding by no means makes it inapplicable to historical understanding. However, these types and typical relationships are not derived from the study of history, nor do they develop historically; they are based on '*experience* in general' (Menger, *Principles*, p. 116), that is to say, on the universality of the economic problem of the rational provision for material needs.

Weber's methodological position was in many respects very similar to that of Menger, although the similarity does not necessarily reflect a direct influence, but could as well express a common substantive ambition. Indeed Weber's specific methodological departures from Menger very closely parallel his substantive critique of Menger's approach to economic theory.

Weber, like Menger although for somewhat different reasons, was dissatisfied with the pragmatism of the Historical School both politically, in its readiness to see the solution of all social problems in the benign intervention of the State, and methodologically, in its subordination of theoretical investigations to political concerns that underlay its pragmatic empiricism. Thus Weber, like Menger, sought to define and defend a specific role for theory within the social sciences, without falling back on the absolutism of classical political economy which claimed an exclusive legitimacy for theoretical understanding. Theory for Weber, as for Menger, was necessarily abstract, concerned with typical relationships and the construction and elaboration of ideal types to which no reality would exactly correspond. Historical understanding was only possible on the basis of such typical constructs, but on the other hand could not be exhausted by such typifications. Finally, Weber, like Menger, argued that the recognition of the legal, political and ethical dimensions of social life did not invalidate the scientific autonomy of economics since any science sought only a partial understanding of reality, a full historical understanding requiring the participation of all the social sciences.

Where Weber departed from Menger most fundamentally was in his characterisation of the typical foundations of social theory. For Menger economics is concerned with the universal economic problem of the rational provision for human material needs. The types on which economic theory is based are therefore elaborations of the principles of rational choice, and for the Austrian School economics is a branch of *praxiology*, the general theory of rational choice. Praxiology was originally seen as a branch of a universal psychology, so that the laws of economics had a psychological foundation and a universal validity.

For Menger, economic theory elaborated on the general categories of human experience, its universal and absolute character being verified by the introspective examination of the 'practical consciousness of economic relations' (Wieser), its certainty expressing the certainty of intuitive knowledge. The universality of economic theory rested ultimately on the supposed universality of economic rationality. In this respect the institutions of capitalist society are the products of the progressive realisation of this rationality.

For Weber, as for his colleagues in the Historical School, economic rationality is not such a self-evident universal truth. On the one hand, the single-minded pursuit of economic goals could be at the expense of ethical and political goals which were valued more highly. Thus, for example, the Junkers' pursuit of profit on their eastern estates was at the expense of the political security of the nation. On the other hand, the rational adaptation of means to ends is only one possible value-orientation that is characteristic of a particular society, but that does not have universal validity. Thus economic theory is not based on an ideal-type that expresses the certain intuitive knowledge of a naturalistic psychological orientation; it is based on an ideal-type that expresses a particular value-orientation that has its own historical origin. The institutions of capitalist society cannot be seen as the products of a universal rationality, for the historical origins of this form of rationality have themselves to be explained. Previous forms of society are not to be dismissed as less developed versions of our own, for they are based on different value-orientations to be captured by distinct ideal-types. 'Economic 'laws' are schemata of rational action. They cannot be deduced from a psychological analysis of the individual' (Weber, *Roscher and Knies*, Free Press, Glencoe, 1975, p. 202).

Menger's belief in the realistic psychological foundations of economic theory led him to contradict the distinction on which he had initially insisted between historical and theoretical knowledge in going on to claim 'empirical validity, in the sense of the *deducibility* of reality from "laws", for the propositions of abstract theory' (Weber, M., *The Methodology of the Social Sciences*, Free Press, New York, p. 87). For Weber, by contrast, the ideal-

type had no reality of its own; it was strictly a 'Utopia', an heuristic device facilitating the formulation of hypotheses and the exploration of historical connections. For Weber, therefore, the validity of the ideal-type could not transcend those historical circumstances in which its reality as a meaning-principle could be attested and those historical examples to whose understanding it contributes. Thus Weber insisted that theory could never give rise to a distinctive form of knowledge. It was merely a tool that could be used in achieving the only valid form of knowledge, knowledge of specific historical events (Weber, *Methodology*, p. 44).

Weber's ideal-type was a hypothetical construct that was based not on the introspective understanding of the universal principles of experience, but on the historical understanding of the typical complexes of values that motivate actors in different societies at different times. The elaboration of such ideal-types depended for Weber, by contrast to Menger, on detailed and extensive comparative and historical investigation that can assist the analyst in the construction of the complexes that make up the ideal-type. Thus Weber retained the essential features of Menger's methodology, while reversing the relation of priority between historical and theoretical understanding, with the ideal-types of theory depending for their elaboration and for their validity on historical research.

Weber's emphasis on the character of ideal-types as value-constructs reflected the concern that he inherited from the Historical School to emphasise the extent to which capitalist rationality was itself a particular ethical ideal contrasting sharply with the ethical ideals of a feudal paternalism. Capitalist rationality had particular ethical implications; for example, in opening up economic conflicts that had previously been subordinated to the sense of community through the subordination of self-interest to duty. However this does not mean that Weber has to be seen in this respect as a follower of Schmoller as against Menger, for even here at the essential point Weber sided with Menger.

For the German Historical School the ethical orientation of political economy implied not only that capitalist rationality was an ethical ideal. Much more importantly it implied, firstly, that economic ideals could not be considered in abstraction from ethical and political ideals, so that economics could not be abstracted from an all embracing history. From this point of view capitalist rationality could be criticised from the standpoint of higher ethical ideals, for example the ideals of community or of self-sufficiency and independence, that capitalism undermined. This position Weber rejected as clearly and as emphatically as did Menger:

The belief that it is the task of scientific work to cure the 'onesidedness' of the economic approach by broadening it into a *general* social science

suffers primarily from the weakness that the 'social' criterion (i.e. the relationships among persons) acquires the specificity necessary for the delimitation of scientific problems only when it is accompanied by some substantive predicate.

There cannot be a 'general' science of the social, for the 'generality' of the term 'social' rests on nothing but its ambiguity. It provides, when taken in its 'general' meaning, no specific *point of view*, from which the *significance* of given elements of culture can be analysed' (Weber, *Methodology*, pp. 67–8). Thus Weber was unhappy about the use of the term 'sociology' that had strong connotations of just such a spurious generality.

The second implication of the ethical orientation for the Historical School was that the rejection of the *dogma of self-interest* was a rejection not only of a social theory based on egoism, but more fundamentally of a social theory based on the individual, in favour of an approach that gave full weight to the importance of historically specific institutions such as the State, the community and the family as the transcendent source of ethical ideals and object of ethical obligations.

Menger recognised the necessary role that such institutions played in historical understanding. Thus history

cannot solve its problems by investigating and cataloguing the vast quantity of *singular phenomena* of human life. Rather, it can do justice to it only by bringing together what is individual in the real world from the point of view of *collective phenomena* and making us aware of the nature and the connection of the above phenomena to those large *collective phenomena* which we call nation, State, society. The fates of single individuals, their acts per se, are not the subject matter of history, but only the fates and acts of nations. (Menger, *Principles*, p. 117)

Menger was at his most insistent in rejecting the organicism of the German Historical School that led it to postulate such collective phenomena as *sui generis* realities. At the level of historical understanding an organic perspective may be necessary and it may even serve to orient theoretical research. But it must always be recognised as provisional. The most fundamental task of theoretical understanding was precisely to undermine the dangerous illusions to which organicism gave rise by discovering the individual foundations of collective institutions. Once collective institutions were attributed their own rationality there was no limit to their elaboration, and State socialism was the inevitable result. Thus it was politically as well as theoretically essential that rationality should be attributed to such institutions only to the extent that they could be shown to express in their

functioning the rationality of individual actors. Theory was essential to defend the ideals of liberalism against collectivist over-enthusiasm. Thus Menger posed 'perhaps the most noteworthy problem of the social sciences: How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a *common will* directed toward establishing them?' (Menger, *Principles*, p. 146) Menger answered by arguing that where such institutions did not have a pragmatic origin in a common intention they could arise only as unintended results of individual action. The fundamental task of the social sciences in this respect, therefore, was to trace the origin of organic social phenomena as the unintended consequences of the individual actions that gave rise to them in order to evaluate them in relation to individual rationality. Menger accordingly turned to do just this for such institutions as money, prices, exchange, private property and the division of labour which were explained as the results of the collective emulation of individual initiatives and so as the social crystallisation of individual rationality.

In his liberalism Weber again aligned himself firmly with Menger against the organicism of the Historical School. Although Weber followed the Historical School in emphasising the importance of ethical ideals, he insisted that those ideals were not transcendent, but could only be individual ideals, ideals that were chosen not imposed. Thus, although it is true that Weber reconciled, however uneasily, the 'positivism' of marginalism with the 'idealism' of the Historical School, the reconciliation was on the basis of the marginalist conception of society and the marginalist conception of the social sciences. Weber differed from Menger in two essential respects. On the one hand, he rejected Menger's belief in the universality of economic rationality, considering the latter to represent a specific ethical ideal and not a psychological universal. On the other hand, he rejected Menger's over-enthusiastic confidence in the virtues of a regime of economic liberalism. It was on the basis of these two essential differences that Weber built his systematic sociology, but this sociology was built as a complement to, and not a substitute for, the marginalist conception of the economy.

The marginalist foundations of Weber's sociology

The methodological convergence between Weber's sociology and marginalist economics is only a symptom of their substantive affinity. The two shared a common liberal individualist starting point. Weber fully accepted that marginalism provided an adequate account of economic action in a capitalist society and even, at the economic level, of the origins of the specifically economic institutions of capitalist society. Thus Weber accepted Menger's account of the rational origins of money and of market exchange,

and the marginalist conception of the economic institutions of capitalism as embodiments of economic rationality, as technical means adapted to the achievement of economic ends, and so as 'facts', at least in relation to the ethical ideal of economic rationality.

What Weber rejected about marginalist economics was its 'naturalism', and its implicit subordination of ethical and political ends to the single ideal of economic rationality. For Weber, by contrast, economic rationality could only be a subordinate ethical ideal, evaluated positively not for its own sake but only for its contribution to national prosperity, social stability and the cultural and political strength of the nation. Thus Weber sought to locate marginalist economics within a broader framework. In doing so, however, Weber was in no way distancing himself from the theoretical achievements of marginalism, but only from the exaggerated faith of some of the marginalists, most notably Menger and Bohm-Bawerk, in the virtues of economic liberalism. Thus Wieser, for example, saw economics in very similar terms to those of Weber and sought to develop his own approach to the subject along essentially Weberian lines, though his achievements were limited. Elsewhere in Europe the most notable developments were those made in sometimes idiosyncratic ways by the Fabians, building on the economics of Wicksteed. Thus Weber was by no means alone in seeing in marginalist economic analysis the foundations on which a liberal, reformist, but non-Marxist theory of society could be built.

The starting point of Weber's sociology was his insistence on the historical specificity of capitalist rationality. Marginalism offered an economic theory that was appropriate to a society within which this was indeed the characteristic value-orientation, but in taking economic rationality as a psychological absolute it ignored the question of the limits of its validity. The first task of sociology was to mark out those limits by establishing a typology of value-orientations, within which capitalist rationality would be only one possible orientation to action. This would make it possible to view the institutions and modes of economic action characteristic of a capitalist society within their historical context. The basis of this investigation, for Weber, could only be the comparative and historical study of different societies.

Weber's comparative and historical writings are well-known. In them he sought to locate the specific defining characteristics of capitalist rationality and the historical source of that rationality in the development of Christianity and on this basis to contrast Christianity with the other great world religions and to trace the development of the institutional framework of modern capitalism, including its legal, political and cultural institutions, as aspects of the development of the particular ethical orientation of capitalist rationality.

178 *Marx, Marginalism and Modern Sociology*

These studies are of value in their own right, but we are concerned with them only in their role in the development of Weber's systematic sociology. From this point of view the purpose of the studies was to permit the elaboration of a series of ideal-types that would provide the conceptual framework of that sociology. Weber elaborated these ideal-typical concepts systematically in *Economy and Society*, a work that is fragmentary and incomplete but within which the general thrust of Weber's sociology is clear.

The fundamental concept of sociology for Weber is the concept of social action.

Sociology... is a science concerning itself with the interpretive understanding of social action and thereby with a causal explanation of its course and consequences. We shall speak of 'action' in so far as the acting individual attaches a subjective meaning to his behaviour — be it overt or covert, omission or acquiescence. Action is 'social' in so far as its subjective meaning takes account of the behaviour of others and is thereby oriented in its course (Weber, M., *Economy and Society*, University of California Press, Berkeley 1968, Vol. I, p. 4).

Sociological explanation therefore aims to discover the source of social relations and social institutions in the meaningful orientation of individual social action. The primitive terms of sociology are not social relations, as they are for Marx, but the abstract individual of liberal social theory, with given material interests and a given set of values.

Since action is meaningful it always involves the selection of means to an end on the basis of a particular value-orientation. This provides one criterion according to which different types of action can be classified. Thus Weber distinguishes four types of action according to their value-orientation. The most fundamental type of action, which is the point of reference for the understanding of all types of action, is defined as '*instrumentally rational (zweckrational)*', that is determined by expectations as to the behaviour of objects in the environment and of other human beings; these expectations are used as 'conditions' or 'means' for the attainment of the actor's own rationally pursued and calculated ends'. The other three types of action are all in some sense irrational. Value-rational action is defined by the pursuit of a value for its own sake; affectual action 'determined by the actor's special affects and feeling states' and traditional action 'determined by ingrained habituation' (Weber, *Economy and Society*, I, pp. 24–5).

The difference between these four types of action seems at first sight to be fairly clear. However, this clarity is illusory and disappears as soon as any attempt is made to apply the classification. Nor are any of the alternative formulations offered by Weber any clearer. Although the typology defines

distinctive value-orientations of action, any attempt to apply the typology to the meanings that actions have for particular individuals runs into familiar problems connected with the attribution of motives. A consumer buying a packet of cornflakes in a supermarket may explain the action in terms of either the instrumental rationality of consumer choice, the value-rationality of a belief in the unique nutritive powers of cornflakes, the affectual impact of the packaging, or tradition ingrained by habit. Weber was well aware of these problems, which is why he insisted that his ideal-types related not to the actual meanings that actions have for particular individuals, but to the typical value-orientations of hypothetical actors. Thus in the formulation of typical explanations, though not in their empirical evaluation, the problem of attribution of motives does not arise.

However at the level of typical value-orientations the fourfold typology effectively broke down into a dualistic typology of rational and irrational action. Thus most of Weber's systematic sociology involved the application of the contrast between rational and traditional or customary action (the concept of 'charisma' has a special role to play, but I shall leave it aside here). The fourfold typology was used particularly with reference to the motives underlying recognition of the legitimacy of domination, but its practical usefulness is undermined here precisely by the problem of attribution of motives. Weber recognised that the concept of rationality enjoyed a special privilege in his sociology, but insisted that this privilege was only a methodological one. The ideal type of rational action

has the merit of clear understandability and lack of ambiguity. By comparison with this it is possible to understand the ways in which actual action is influenced by irrational factors of all sorts, such as affects and errors, in that they account for the deviation from the line of conduct which would be expected on the hypothesis that the action was purely rational. (Weber, *Economy and Society*, I, p. 6)

The implication is that if it is possible to propose a rational interpretation of a particular course of action that course of action will fall under the ideal-type of instrumentally rational action. If it is not possible to construct such a rational interpretation the action will fall under the ideal-type of irrational action.

Clearly a great deal depends on the meaning of rationality. As a formal concept rationality implies no substantive judgements and refers essentially only to the consistency with which somebody acts. In this sense beliefs are rational if they are non-contradictory and action is rational if it is consistent with beliefs. However in this sense the rationality of actors is a necessary condition of the intelligibility of action and so a necessary presupposition of

any attempt at interpretation or explanation. Thus if rationality referred to *formal* rationality all meaningful behaviour, in other words all action, would be rational. Although Weber used the term 'formal rationality' to refer to instrumentally rational action, he clearly did not mean it in the present sense. In fact, as we shall see, Weber defined rationality much more restrictively. In its fullest development it is characteristic only of a capitalist society, so the concept of 'traditional', or, more generally, irrational action is a residual category that covers the typical orientation of action in all non-capitalist societies. Hence, although Weber included very extensive discussion of types of traditional action in his work, the analytical value of the typology was simply to demarcate capitalist from non-capitalist societies.

If the specific characteristics of social action in a capitalist society cannot be characterised by a formally rational value-orientation in the sense just discussed, capitalist rationality must have some substantive content. Before we can further explore this content we must investigate the use Weber made of the concept in his sociology. Actions may be classified not only on the basis of their typical value-orientations, but also according to the types of end to which they are directed. Thus economic action is distinguished from political or religious action according to the goals that are pursued in each case. It is on the basis of the distinctive goals of economic action that Weber argued that the abstraction of economic theory is legitimate

Marginalist economics provided an adequate theory of the economic consequences of the pure type of rational economic action. Although Weber rejected the tendency of economic liberalism to make economic rationality an absolute ethical ideal, at the expense of cultural, moral, religious and political ideals, he defended the autonomy of economic theory and correspondingly of economic sociology on the basis of the distinctiveness of the mode of orientation of economic action that makes it legitimate to abstract from consideration of action oriented to non-economic ends. Political or religious actions are not oriented to economic gain, even though they may have economic implications. They are therefore considered as 'economically oriented actions', and not as 'economic actions'. Thus, although economic action depends on the existence of a legal and political order, it is legitimate to analyse economic action in abstraction from that order. Any particular economic action will, of course, be undertaken in the light of the existence of such an order, but from the point of view of theoretical investigation such an order must be taken as given. Correspondingly the legal, political and religious orders must be the subject of independent investigation, however much they might be influenced in practice by economic factors, in accordance with the distinctive modes of orientation of their typical forms of action.

Weber had no objections to the marginalist theory of the economy, provided only that it knew its own limits. Thus Weber constantly stressed that he was not offering an alternative economic theory and that he did not wish to become involved in economists' disputes. He insisted that the 'theoretical insights' of economic theory 'provide the basis for the sociology of economic action' which did not in any way call them into question. Weber's task was merely to elaborate the sociological concepts implicit in such an economic theory. His scheme 'is intentionally limited to sociological concepts... restricts itself to working out a sociological typology... to supply a scaffolding... to develop a systematic scheme of classification' (Weber, *Economy and Society*, I, pp. 68, 116).

The fundamental concept implicit in economic theory is the concept of 'rational economic action'. The first task of Weber's economic sociology was therefore to elaborate this concept and to establish the connections between it and the fundamental institutions of capitalist society. This elaboration involved Weber in elucidating the social theory implicit in marginalist economics. Weber began his discussion of the 'sociological categories of economic action' with a series of fundamental definitions:

Action will be said to be 'economically oriented' so far as, according to its subjective meaning, it is concerned with the satisfaction of a desire for 'utilities'. 'Economic action' is any peaceful exercise of an actor's control over resources which is in its main impulse oriented towards economic ends. 'Rational economic action' requires instrumental rationality in this orientation, that is, deliberate planning. (Weber, *Economy and Society*, I, p. 63)

Rational economic action therefore involved, primarily, the systematic orientation of production and exchange to the acquisition of utilities through the allocation of resources in conditions of scarcity.

The definition of rational economic action made no reference to the conditions under which such action was carried out, but referred only to the subjective orientation of action. However such action necessarily involved the quantification of alternative courses of action in order that the alternatives could be rationally evaluated. Hence rational economic action presupposed the possibility of economic calculation. In principle rational action was possible 'where calculation is 'carried out in terms of physical units', however such calculation could only be based on the subjective evaluation of utilities and disutilities which Weber claimed raised serious difficulties so that

the actual solution is usually found partly by the application of purely traditional standards, partly by making very rough estimates... As accounting in kind becomes completely rational and is emancipated from tradition, the estimation of marginal utilities in terms of the relative urgency of wants encounters grave complications; whereas if it were carried out in terms of monetary wealth and income, it would be relatively simple.

Consequently

from a purely technical point of view, money is the most 'perfect' means of economic calculation. That is, it is formally the most rational means of orienting economic activity. Calculation in terms of money... is thus the specific means of rational, economic provision. (Weber, *Economy and Society*, I, pp. 87–8, 86)

The possibility of properly rational economic action depended on the possibility of monetary calculation. Thus the development of rational economic action was identified with the development of the 'formal rationality of economic action', which was defined as 'the extent of quantitative calculation or accounting which is technically possible and which is actually applied' (Weber, *Economy and Society*, I, p. 85), and this possibility was identified in turn with the development of monetary accounting.

Economic action was initially defined in terms of an orientation of action to the satisfaction of a desire for utilities. Such action would take place within the context of a budgetary unit, such as the household. Budgetary accounting sought to relate anticipated needs to anticipated resources. 'The possibility of complete monetary budgeting for the budgetary unit is dependent on the possibility that its income and wealth consist either in money or in goods which are at any time subject to exchange for money; that is, which are in the highest degree marketable' (Weber, *Economy and Society*, I, p. 87). The formal rationality of economic action in the budgetary unit therefore depended on the generalisation of commodity production. Fully rational economic action is possible for a budgetary unit only within a developed capitalist society.

Exchange in a developed market economy takes place on the basis of the equalisation of relative prices and relative marginal utilities. This equalisation takes place not only contemporaneously, but also over time. According to some versions of marginal utility theory, to which Weber adheres, economic actors have an (irrational) preference for present as against equivalent future goods. According to this theory this time-

preference is the basis of profit since the prices of goods which take time to produce must be marked up in order to compensate those who have provided capital for the loss of utility involved in waiting for its return. Although time-preference is a universal phenomenon, it only becomes the basis of profit within a developed market-economy within which resources can be allocated in accordance with relative marginal utilities. Thus within such an economy we find the emergence of the profit-making enterprise, oriented to the acquisition of profit and differentiated from the budgetary unit. The emergence of such an enterprise expresses the orientation of economic actors to the rational allocation of resources over time.

Because of their different orientations to action it is essential to rational economic action that the budgetary unit and the profit-making enterprise should be separate from one another. Thus

from the point of view of business interest, the interest in maintaining the private wealth of the owner is often irrational, as is his interest in income receipts at any given time from the point of view of the profitability of the enterprise... This fact implies the separation as a matter of principle of the budgetary unit and the enterprise, even where both, with respect to powers of control and objects controlled, are identical. (Weber, *Economy and Society*, I, pp. 97–8)

The formal rationality of economic action in the profit-making enterprise depends on the commodity character and free disposal of the resources under its control. Thus the 'principal conditions necessary for obtaining a maximum of formal rationality of capital accounting in production enterprises' are defined as the 'complete appropriation of all material means of production by owners'. This involves the freedom of markets, subordination of management to ownership, free labour and free labour-markets, freedom of contract, a 'mechanically rational technology', 'formally rational administration and law', 'the most complete separation possible of the enterprise... from the household or budgetary unit' and 'a monetary system with the highest possible degree of formal rationality' (Weber, *Economy and Society*, I, pp. 161–2) — in short the perfectly competitive capitalist economy of marginalist economics.

The generalisation of the market economy was not only the condition of rational accounting and so the formal rationality of economic action, but also the condition of the 'technically rational organisation of the work process'. This was firstly because of the 'sheer superiority and actual indispensability of a type of management oriented to the particular market situations' where 'management has extensive control over the selection and modes of use of workers' and where 'free labour and the complete appropriation of the means

of production create the most favourable conditions for discipline'. Secondly, it was because the fear of starvation gave those without substantial property an incentive to work while it provided incentives to enterprise for those with property (Weber, *Economy and Society*, I, pp. 137–8, 110).

Weber's account of the conditions of rational economic action reformulated in more rigorous terms the rationalist explanation of the fundamental institutions of capitalist society already presented by marginalist economics, and most notably by Menger. The institutions of private property in the means of production, of exchange, of the division of labour, of money, of wages, prices and profits were all conditions for and expressions of the formal rationality of economic action. It was this account that was the foundation of Weber's sociology.

Economy and society

The analysis of marginalist economics is conducted at a very high level of abstraction. It is essentially a formal analysis of the conditions and consequences of rational economic action in abstraction from any particular society. Economics thus studies the eternal and ahistorical forms of reason and so is a deductive *a priori* enterprise. Throughout the nineteenth-century, as we have seen, various schools of 'sociology' emerged to complement or contest the abstraction of economics, sociology studying the contingent institutional and moral framework within which the economic forms appear. This is in essence the opposition between marginalism and the German Historical School. The relationship between economics and sociology was always one of tension, as neither was able to accommodate the other. Thus, in the *Methodenstreit*, Menger and Schmoller each claimed to have discovered the only appropriate form of knowledge of society. Menger criticised historicism on the grounds that knowledge necessarily involved the formulation of general laws, while Schmoller criticised marginalism for trying to apply its abstract laws to reality.

In his methodological writings Weber sought to achieve a reconciliation of the two positions in arguing that theory is necessary to historical explanation, while denying that theory in the social sciences could be a distinctive form of knowledge with its own independent validity. The deductive method of economics produced only hypotheses, in the form of ideal-types, which were necessary to historical understanding, but whose explanatory power lay only in the historical relationships they illuminated. Sociologists have pored over Weber's methodological writings to find the key to the sociological method, but Weber's 'ideal-types' hang uneasily between descriptive categories and explanatory concepts without ever resolving the tension between the two. The ambiguity of the concept of the ideal-type focuses the methodological

dilemma without resolving it. However Weber's real achievement lay not in formulating a prescriptive methodology for the social sciences, but in achieving a substantive reconciliation of economics and sociology so as to make possible a unified, though differentiated, liberal social theory.

Weber's typology of action ascribed a particular place within the social sciences to economic theory. Economic theory was concerned to elaborate the economic conditions for, and implications of, the pure type of rational economic action. Foremost amongst the economic conditions for rational economic action were the fundamental institutions of capitalist society: private property, the market, money, the division of labour, wages, and profits. These institutions were therefore explained, at the level of abstraction of economic theory, as instrumental expressions of economic rationality. Although these institutions were the manifestations of historically specific social relations that have developed in the course of the production and reproduction of human social existence, they were not conceptualised at this level of abstraction as specific historical developments but as the embodiment of an abstract historical rational principle.

Sociology cannot rest content with such an abstract deductive account of the structure of capitalist society. Society is not made by metaphysical principles, but by real people interacting with one another on the basis of their particular needs and aspirations. If sociology were to be reconciled with economic theory it needed to situate the abstractions of economic theory within the concrete framework of everyday social life. Weber's typology of action made this possible, locating economic theory as one among several branches of social science, concerned with the abstract investigation of one dimension of social life. Economics alone could not give knowledge of concrete societies; such knowledge could only be achieved by the totality of the social sciences. Economic sociology was concerned to locate the abstractions of economic theory within the concrete reality of social action, while other branches of sociology concerned themselves with the conditions for, and implications of, action oriented to non-economic ends.

Although economic theory was only one branch of the social sciences, it nevertheless enjoyed an especially privileged position. However much the institutions abstractly theorised by economics were located historically, however much the historian and sociologist explored the specific socio-historical circumstances within which they came into being, they remained also the supra-historical manifestations of reason and so the universal foundations of a society characterised by its formal rationality, capitalism.

Weber recognised the crudity of Menger's account of the origins of the fundamental institutions of capitalist society, according to which one individual rationally appreciated the advantage of, for example, money and was then imitated by others. Thus Weber recognised that the origins of

capitalism lay in the struggles for power and material gain of an earlier age, so that money, credit, exchange, the separation of labour from the means of production, were all developed by particular interests seeking their own advantage. But this particularity of origin did not undermine the identification of these institutions with formal rationality; it merely meant that the progressive rationalisation of economic action was an uneven and discontinuous process that was often compromised by particular interests. The universal significance of all these institutions remained their formal rationality, and not the particularity of their origin.

Economic theory had this special status because the rationality on which it was based and which was expressed in monetary calculation was supposedly a purely formal rationality. The institutions to which it gave rise were therefore the instruments of reason, and so the presuppositions and foundation of rational social action and not its specific products. Money, prices, markets and exchange were simply the forms within which rational social action realises itself. Hence the theoretical status of an explanation of market exchange as 'the archetype of all rational social action' (Weber, *Economy and Society*, I, p. 635) was quite different from that of an explanation of a particular exchange relation in terms of the needs, aspirations and circumstances of particular individuals who meet in the market. The market provided a formal framework within which rational social action takes place, without dictating the terms of exchange and so the content of that action. A particular exchange may even involve an attempt to subvert the rationality of the market by violating its principles, but in that case the exchange eschewed not only the principles of the market but also the principles of rationality. Economic theory, and its concept of rational economic action, was therefore the foundation of any sociological investigation of capitalist society in providing the formal framework that was the condition of possibility of rational action. It was for sociology to fill this framework with social content.

Sociology should not be concerned with singular acts but with 'courses of action that are repeated by the actor or (simultaneously) occur among numerous actors since the subjective meaning is meant to be the same' (Weber, *Economy and Society*, I, p. 29). Such repetition may be simply the manifestation of usage, custom or habit, sustained by inertia and convenience. Alternatively it may, as in economic theory, be a manifestation of the repeated rational appreciation of identical situations and so be explicable in terms of rational self-interest. However, it may also be the result of an orientation of action to a *legitimate order* of normative regulation, whether in the form of convention or of law. Convention is a spontaneous form of normative regulation emerging out of social relations; law is a compulsory form of regulation imposed by an organisation. An

adequate account of social action, including economic action, had to consider not only the rational orientation to self-interest, but also the formation of, and orientation to, the legitimate orders of social organisations. Where the economic institutions of the market — money etc. — provided the necessary formal framework for rational social action, the social institutions of organisations with their legitimate orders provided its contingent historical framework. It was on this basis that Weber differentiated ‘economy’ and ‘society’, ‘economics’ and ‘sociology’. Economics remained a deductive discipline establishing the formal instrumental rationality of the fundamental institutions of capitalist society. These institutions provided the framework within which actors, through their meaningful interaction with others, engaged in social action and created social relations and social institutions.

Weber’s sociology was primarily concerned with establishing a typology of organisations according to the ends which motivate their formation and inform their direction; the means available to those ends, the value-orientation of action typical to them and their internal dynamics. It was quite possible and indeed very likely, that the formation of these organisations would subvert the formal rationality of the competitive market system, for they were established precisely to achieve ends that could not be achieved directly through rational economic action. The existence of organisations could not simply be taken as given. Their origins had to be sought in the individual actions that gave rise to them and sustain them. Such ‘collectivities must be treated solely as the resultants and modes of organisation of the particular acts of individual persons, since these alone can be treated as agents in the course of subjectively understandable action’ (Weber, *Economy and Society*, I, p. 13).

Organisations may be classified according to the typical orientation of action that gives rise to them. Thus economic organisations are established and administered with a view to achieving economic ends; the budgetary unit as an economic organisation is oriented to the satisfaction of a desire for utilities and the profit-making enterprise is oriented to making profits. Other economic organisations will arise on the basis of economic interests, as individuals with a common interest associate in order to advance that interest, usually by monopolising advantages and so regulating exchange in their own interests. The most notable such organisations are trade unions and cartels.

Organisations will also be formed to further the pursuit of non-economic ends. A political organisation is one in which the membership is subject to domination by an established order which is maintained within a certain territorial order by the threat of force. A political organisation is therefore directed to the attainment and imposition of coercive power. In contemporary society the only strictly political organisation, in this sense, is the State,

which claims a monopoly of the means of physical violence. However the State determines the existence of a *political community*, within which politically oriented action, that is to say action oriented to affecting the direction of the State, is channelled through political parties.

A 'hierocratic organisation' is one 'which enforces its order through psychic coercion by distributing or denying religious benefits' (Weber, *Economy and Society*, I, p. 54). Religious action is the action of such an organisation; religiously oriented action is action oriented to influencing the direction of the organisation. Hierocratic organisations were particularly important for Weber because they were defined by their orientation to, and imposition of, ideal ends, and as such could influence the value-orientation of action in all spheres of social life.

Organisations may also be classified according to the means adopted by those in authority to achieve their ends. Any organisation that is more than a spontaneous voluntary association will be characterised by a system of domination which will typically involve an administrative staff and a system of legal regulation. According to the value-orientation of action typical of the leadership of the organisation there will be typically different forms of law and of domination. Thus Weber developed an elaborate typology of such forms as the core of his sociology of law and his sociology of domination.

Weber insisted on the autonomy of political and religious ends in relation to economic ends. Political action is directed to the achievement of political power for its own sake, not as a means to material gain. Religious action is oriented to ideas for their own sake, and not to provide a moral gloss for material interest. Thus the ideal types of action and corresponding organisation must be formulated in abstraction from one another. However in reality it is true that the autonomy of economic, political and religious action is not maintained. Thus churches, States, political parties have to engage in economic action to sustain themselves as corporate entities, and may intervene in economic life to achieve their political and religious ends. Economic actors and economic organisations may orient their activity to political and religious organisations to achieve their economic ends. Thus a cartel may seek political favour, a trade union legal protection and a party religious sanction. Financiers may encourage the State to increase its indebtedness; industrialists may encourage it to protect them from competition, imperialists may encourage its expansionism and capitalists may seek to use the State to oppress the working class. None of these practical relationships, however, undermine the fact that for Weber the State and the church were in essence autonomous and directed to other than economic ends. If that autonomy was destroyed, they would cease to be political or religious organisations.

There is an important place in Weber's sociology for the concept of 'class', which marginalism had expunged from economics. Classes arise as associations of individuals pursuing a common economic interest. Weber defined a class as 'all persons in the same class situation', a 'class situation' being defined in turn as 'the typical probability of (1) procuring goods, (2) gaining a position in life and (3) finding inner satisfactions, a probability which derives from the relative control over goods and skills and from their income producing uses within a given economic order'. The concept of class situation therefore refers to a common economic interest that derives from a common economic situation, defined in terms either of the possession or absence of property ('property class') or of the type of economic activity, for example, the branch of production of an entrepreneur or the occupation of a worker ('commercial class'). A *social class* is then defined as 'the totality of those class situations within which individual and generational mobility is easy and typical'. Thus social classes are defined as the working-class, the *petit-bourgeoisie*, the propertyless intelligentsia and specialists, and the 'classes privileged through property and education' (Weber, *Economy and Society*, I, pp. 302, 305).

Although the concept of social class defines a common interest among, for example, workers in different occupations or entrepreneurs in different branches of production because of the possibilities of social mobility between them, there is no reason why individuals should necessarily be aware of their common class situation and still less why they should necessarily establish class organisations on that basis. 'A *uniform* class situation prevails only when completely unskilled and propertyless persons are dependent on irregular employment. Mobility among, and stability of, class positions differs greatly; hence the unity of a social class is highly variable' (Weber, *Economy and Society*, I, p. 302). Class situation is only one basis of economic organisation and one that does not easily succeed because of class divisions. It goes without saying that the concept of class is not appropriate to the conceptualisation of action directed to non-economic ends, however much class factors may contingently intrude on the activity of such organisations as parties or status groups. Thus there is no more justification for reducing the uniformities of social action to the single concept of class, than there is for reducing them to rational self-interest. Conflicts of economic interest are inevitable, so there is an inherent tendency to class-formation in capitalist societies, but classes may be more or less significant groupings at different historical periods. Correspondingly, there will be a greater or lesser tendency for class factors to play a role in the formation of parties and status groups. However, such interdependencies have to be investigated empirically as they arise, and cannot prejudice the

essential autonomy of ends on the basis of which different forms of action, organisation and social relation arise.

Weber's sociology offered a pluralistic conception of society that he contrasted with the reductionism of both Marxism and vulgar economic liberalism. Although economic theory defined the formal framework of a rational economic system, it did not specify its concrete historical content. In pursuing their economic, political and religious or ethical interests individuals create a range of social relationships and social organisations that provide the institutional environment within which social life takes place. The variety and complexity of social existence cannot be reduced to uniform expressions of the rational pursuit of self-interest. Such a reduction ignores the importance of ethical and political goals in social life, and ignores the prevalence of custom and tradition and of affectual orientations to action even in a capitalist society. Hence an adequate theory of society has to complement economic theory with sociology.

Although Weber rejected the reductionism of both Marxism and economic liberalism in espousing a pluralist conception of society, he believed that capitalist society had a coherence and a unity that was given by the typically rational orientation of action in capitalist society. We have already seen that the capitalist economy is characterised by economic rationality, but this rational value-orientation is not a specifically economic phenomenon. The rationalisation of the capitalist economy is simply one aspect of a process that can also be observed in religion, in law and in the characteristic forms of domination of Western European society. According to Weber this process cannot be reduced to the requirements of economic rationality; rather the development of economic rationality is one manifestation of the development of an instrumentally rational value-orientation. The time has come to explore just what this rationality involves.

The typology of action and the theory of society

The basis of Weber's sociology was his typology of social action, which was the conceptual foundation of his entire scheme of ideal types. Marginalist economics took as its starting point the abstract individual whose actions were determined according to the rational pursuit of economic ends and developed the pure theory of rational economic action. However Weber's typology of action established that rational economic action was only one among a variety of forms of social action, defined according to the value-orientation of action and the ends to which that action was directed. Thus economics is only one branch of the social sciences, building a theory of the institutions and social relations that can be regarded ideal-typically as the consequences of rational economic action. Sociology has to put economics in

its place within the field of the social sciences, and has to complement economic theory with a comparable ideal-typical investigation of those forms of action that cannot be characterised by a rational orientation to economic ends and the institutions and social relations that arise on the basis of such action. This ideal-typical investigation could not, for Weber, produce theoretical truths, as a distinctive form of knowledge, but it did generate the fundamental concepts which provided the basis for comparative and historical investigation and so for particular sociological explanations.

The primitive concepts of Weber's sociology were, on the one hand, the abstract individual and, on the other hand, the value-orientation of action and the ends to which that action was directed. A sociological explanation had been achieved once social action, social relations and social institutions had been related back to the orientation to ends and values of the individuals whose actions gave rise to those social relations and social institutions. It was therefore fundamental to Weber's aim of establishing a conceptual foundation for the social sciences, that the typology of ends and of value-orientations be established prior to, and independently of, the social relations and social institutions to which they give rise. If this were not the case the ends and value-orientations of action would in turn be amenable to sociological explanation and they would cease to be the primitive concepts of sociology. The typology of ends can be used to exemplify the argument, before we turn to the typology of value-orientations.

The typology of ends was the basis on which Weber established the autonomy of economic, political and ethical or religious action, and so of economics and the other branches of the social sciences. Although Weber stressed that the ideal-types could only be established by thorough comparative and historical investigation, the autonomy of these different forms of action, and of the institutions and social relations to which they gave rise, was not established empirically. Weber observed, for example, that political and religious means were frequently used to economic ends and that success in achieving political and religious ends was frequently dependent on the availability of economic means. The basis of this differentiation is therefore not empirical but conceptual. However if we ask what is the conceptual basis of the differentiation of ends we find ourselves caught at once in a vicious circle. Economic action is action oriented to the provision of the material means of human existence. Defined in this stark way the definition could be considered to be prior to the social institutions to which it gives rise, so that an instrumental explanation of these institutions is not incoherent. However, political and religious action are defined in terms of ends that have no meaning outside society, especially outside the institutions to which they supposedly give rise. Thus political action is defined by an orientation to the exercise of political power; politically oriented action to the

acquisition of such power. Political action therefore presupposes the existence of a political organisation, without which political power does not exist. In the same way religious action presupposes the existence of an hierocratic organisation. Hence the definition of the ends of social action presupposes the existence of precisely those social institutions which the typology of ends was set up to explain. The only way out of this vicious circle is to postulate an inherent irrational quest for power and metaphysical sustenance as a defining characteristic of the human psyche. This, however, is just the kind of psychologism from which Weber sought to rescue the social sciences. The only conclusion must be that the explanation of the specific characteristics of economic, political and religious action must itself be sociological and cannot be referred to the typology of ends. Weber's typology presupposed the phenomena it sought to explain, and so its explanatory power was limited to a potential ability to explain the reproduction of those social phenomena, to the extent that they corresponded to socially determined and socially effective human needs.

While the typology of ends established the autonomy of the different forms of action, and so of the different branches of the social sciences, the typology of value-orientations was the basis on which the coherence and unity of society was established. Thus the cultural unity of a capitalist society was defined by the typically rational value-orientation of action in such a society. I have already noted that the typology effectively reduces to the contrast between rational and irrational action, the distinctions between different types of irrational action referring to typical motivation rather than to typical value-orientation. The typology therefore depends on the characterisation of 'rationality'.

It is fundamental to Weber's sociology that this rational value, orientation can be defined abstractly, and not reduced to the specific economic rationality of capitalist society. If this were not the case his sociology would be threatened by a reductionism for which the characteristic value-orientation of capitalist society would be the expression of capitalist economic rationality, so that the rationality of political and religious action would not be inherent in those forms of action, but would be an expression of their relation to economic action.

We have seen that Weber insisted that economic rationality was only one form of rationality and that the development of the capitalist economy was only one aspect of the rationalisation of western society. The Protestant ethic and the bureaucratic State are not expressions of the development of capitalist rationality; all three are, in principle, autonomous expressions of the development of a rational value-orientation in all spheres of social life. However, we have already seen that formal rationality in the sense of consistency and determinateness of relations between motives and actions is

a necessary condition for the intelligibility of action, and so a necessary condition for any interpretative sociology, without in any sense being sufficient for the definition of an instrumentally rational value-orientation to action in Weber's sense. Weber's formal rationality therefore necessarily involves substantive considerations.

In practice Weber's explorations of irrational forms of action were conducted on the basis of the presupposition of the formal rationality (in the narrow logical sense) of all action. Thus he analysed, for example, patrimonialism in terms of the rational requirements of administration appropriate to a particular society and of the rational responses of different actors to the situations in which they found themselves. Patrimonialism, or calculation in kind, did not persist because of an irrational failure to adapt means to ends, but because the means for a more rational adaptation were not available. Different forms of action therefore lay on a scale of rationality, and could not be characterised by the stark contrast between rationality and irrationality. We have to ask what makes one form of action more rational than another.

Weber's definition of formal rationality differed according to the sphere of activity with which he was concerned. Thus economic rationality referred to economic action and was defined in terms of the extent of money calculation. However such a definition was obviously not appropriate to the characterisation of rational forms of law, domination or religion. Each of these was characterised in turn in its own way. Thus rationality was expressed in formal law, bureaucratic domination and a secularised religion. The common feature of all these cases was the determination of a course of action in accordance with a set of general rules rather than a particular prescription or a capricious whim. Very broadly, the degree of rationality was identified with the degree of generality of the rules applied to the determination of a particular course of action, and so with the relative absence of particularistic regulation.

On what basis is the degree of abstraction of regulations identified with the degree of rationality? It is certainly the case that the existence of a set of rules makes it possible to predict with some degree of accuracy the decisions of a legal, bureaucratic or hierocratic authority, and so to anticipate the consequences of a particular course of action. However, the defining feature of such a situation is not the rational orientation of the actor calculating the consequences of action, but the degree of predictability of those consequences which is made possible by the existence of a set of rules. Although the decisions of a despotic ruler might not be governed by a legal system, this does not imply that those living under a despotic administration will have to abandon rationality; it merely means that they will have to base their calculations on their knowledge of the considerations the despot will be

likely to bring to bear on their case. To the extent that despotic rule is capricious such calculation will involve considerable indeterminacy. Thus it is predictability that is the consequence of a set of general rules, not rationality.

Although the predictability of the consequences of action is a characteristic of an abstract legal system, it is not the exclusive prerogative of such a system. The rule of custom and tradition, or even the decisions of a despot, may attain just as high a degree of predictability. Thus the rationality of an abstract system of regulation is not an inherent characteristic of that system, nor of the value-orientation of the actors who avail themselves of that system. An abstract system of regulation can only be considered to be particularly rational in relation to the substantive ends that the system is designed to secure and the means that are available to those ends. An abstract system of regulation makes it possible to anticipate with some degree of accuracy the consequences of a particular action and it applies to every individual without regard to their personal characteristics or social status. There is nothing especially rational about such a system. Thus Weber recognised that the abstract character of the system implied that it would be substantively irrational, for the fact that the same set of rules applied regardless of personal circumstances meant that the substantive consequences of those rules would differ from person to person: freedom of contract was the freedom of the capitalist to appropriate surplus value and the freedom of the worker to submit to the direction of the capitalist; the same freedom is the freedom for the enrichment of the one and the enslavement of the other. The application of the abstract principle of equality before the law in an unequal society is a means and a condition for the reproduction of that inequality.

Weber was undoubtedly correct to argue that formal law and bureaucratic domination could not be identified completely with capitalism. Formal legal systems and bureaucratic domination arise in societies and in areas of social life that apparently have little or no connection with capitalist economic forms, although they do seem to be quite closely associated with the development of commodity production. However, it is their association with capitalism that marks these forms as especially rational in comparison with any alternative forms. This is quite simply because rational economic action requires the freedom of action from particularistic legal, political and religious constraints. The decisions of legal, political and religious authorities will have economic implications. The exercise of economic rationality requires that these implications should be predictable and that they do not favour one branch of economic activity or one actor against another.

The same might be argued of religion. It is difficult to see how it is possible to characterise any system of belief as inherently more rational than any other. Thus the this-worldly asceticism of Calvinism, that is the defining characteristic of the Protestant ethic, can hardly be called more rational than alternative systems of religious belief. What makes particular sorts of religious belief rational within Weber's scheme is not their inherent qualities, but the fact that they do not impede, or that they actually promote the development of economic, legal and bureaucratic rationality, in short the development of capitalism. Thus the Protestant ethic is very rational in a capitalist society, since hard work and frugality are the necessary qualities of a good wage-labourer, while holding out the promise of further advance if savings and the reinvestment of profits make it possible to accumulate capital. But in a pre-capitalist society this would be a most peculiar way to behave, and social disapprobation would be heaped on anyone who tried to live by such an irrational standard. In themselves the Protestant ethic, formal law and bureaucratic domination are no more rational than any other forms. It is only their privileged relationship to economic rationality that makes their designation as rational an appropriate one.

Bureaucratic, legal, religious and economic rationality are not independent manifestations of a purely formal principle. The rationality of the first three is conditional on the rationality of the last one. Thus the rationalisation of European society cannot be seen as a generalised change in the value-orientation of action in the direction of a purely formal rationality. If it is to be seen as a rational process it can only be seen as the process through which the particularistic and traditionalistic barriers to the exercise of capitalist economic rationality are swept away. Weber's attempt to conceptualise the coherence of capitalist society, to explain how law, the State and religious belief just happen to take on forms appropriate to rational economic action, leads back to the economic reductionism that Weber sought to avoid. Thus the characterisation of the institutions and social relations of capitalist society as being rational depends on the characterisation of the rationality of economic action in a capitalist society.

Weber identified the formal rationality of rational economic action with the possibility and extent of money calculation. The question we have to ask is in what sense is money calculation especially rational? Can its rationality be defined in purely formal terms, or does it depend on the presupposition of the substantive rationality of capitalist social relations? Is capitalism the expression of the rationality of economic action, or is money calculation simply the form of economic rationality appropriate to capitalism? Does capitalism express the development of economic rationality, or does economic rationality express the development of capitalism?

Economic action is rational when it involves an instrumentally rational orientation to the satisfaction of a desire for utilities. To what extent is monetary calculation a condition of such rationality? Weber asserted that monetary calculation on the part of the budgetary unit was more rational than calculation in kind because of the reliance of the latter on the subjective evaluation of advantages which made it impossible to quantify alternatives objectively. This fundamental argument is fallacious, and almost trivially so in view of Weber's conception of sociology.

Calculations in kind undoubtedly involve the subjective evaluation of the benefits that flow from alternative dispositions of resources, but this is no less true of monetary calculations. In the latter case the budgetary unit has to decide how much of each available good to sell and how much of each good offered on the market to buy at prevailing market prices. Money is the means of comparison, but what is being compared is the subjective evaluation of alternative courses of action on the basis of anticipated marginal contributions to utility in each case. Since subjective evaluation is the defining characteristic of action for Weber, calculation in money is no more rational from a subjective point of view than calculation in kind. Hence, if money calculation is to be characterised as peculiarly rational, this can only be on the basis of the substantive rationality of the market through which prices are determined.

When we turn to the profit-making enterprise the situation is different, but this is definitionally the case since the profit-making enterprise is defined by an orientation not to utilities but to profit, an objective quantitative difference between income and expenditure. In this case monetary calculation is the appropriate form of rational economic action not because of the particular rationality of money calculation, but because of the substantive orientation of action to profit. The rationality of monetary calculation in this case is an expression of the rationality of the profit-making enterprise.

In neither of these cases can the rationality of monetary calculation be characterised in terms of a peculiarly rational value-orientation of action. The subjective rationality of monetary calculation is merely an expression of the substantive rationality of the market and of the profit-making enterprise as means for the provision of human needs. The coherence of Weber's sociology therefore rests on the validity of the economists' demonstration of the rationality of the capitalist economic system.

In examining the economic theories developed by marginalist economics I concluded that the marginalist characterisation of the rationality of capitalism on the basis of the rationality of economic action depended on abstracting the economic actor from the social relations of capitalist society, and so in treating those social relations as the natural substratum and not as the social foundation of economic action in a capitalist society. Thus marginalist

economics rested on an ultimately naturalistic foundation, seeing capitalist social relations as the rational expression of the natural and technological conditions of economic existence, and not as the expression of particular class relations of production. Only on the basis of such a naturalisation of capitalist social relations could marginalist economics take the needs, aspirations and resources of the individual actor as the given starting point of economics. I argued that the needs, resources and aspirations of the individual economic actor are the subjective aspect of the objective constraints imposed on the individual by the reproduction of the social relations of capitalist production, constraints whose objectivity arises out of the alienated character of commodity production.

Weber's sociology, like marginalist economics, rested on the abstraction of the social actor from the social relations within which he or she was inserted in the taking the ends and value-orientations of action as the given starting point of sociology. We have now seen that the characterisation of both the ends and the value-orientations of action presupposes the social relations within which the individual is inserted and to which action is oriented. The theory of action can only provide the basis for economics and sociology if the task of explaining those social relations is defined as a task external to the social sciences. In the case of the value-orientation of action this is achieved by the naturalisation of capitalist social relations of production, so that those social relations become the expression of natural and technological, rather than social, constraints. In the case of the ends of action Weber achieved this by taking the existence of a State, a church, and an intellectual and cultural environment as historically given. Thus at this critical point in his sociology Weber resorted to an historicist empiricism that enabled him to avoid confronting the dilemma with which he had presented sociology. For Weber sociology had to take actually existing society as its given starting point, and could only achieve an interpretative understanding of action within that given framework. Thus Weber severely limited the explanatory power of sociology (and of economics) in making it into a discipline that merely elaborated a typology that could provide the basis for the only valid form of knowledge, that of the historical interpretation of meaningful action. Sociology cannot explain either the ends that actors set for themselves, the values that orient those ends or the social relations within which action takes place. All that it can do is to elaborate the hypothetical consequences of action on the basis of those ends, values and social relations, achieving an interpretative account of the subjective aspect of the reproduction and transformation of economic, social and cultural relations.

This explains the strong streak of irrationalism running through Weber's sociology, for the ultimate foundations of social action are not amenable to rational explanation. The subjective orientation of action is ultimately

arbitrary and the choice of particular ends and value-orientations irrational. This explains the role of the concept of *charisma* in Weber's sociology. Whereas for Menger organic social institutions developed through the collective emulation of individual initiatives based on a recognition of the rationality of the innovation, for Weber rationality was itself not an ultimate value, and so could not provide the ultimate basis of sociological explanation. The development of the economy and society was not the development of reason, for capitalism was rational only from one point of view, that of formal rationality.

From different evaluative viewpoints the formal rationality of capitalism is compromised by its substantive irrationality when judged against other than narrowly economic criteria. There is therefore no ultimate basis of evaluation and in the last analysis the adoption of particular ends and values, and the corresponding development of particular social institutions, is arbitrary and irrational. The generalisation of normative innovations is not, therefore, a process of rational emulation, but of irrational substitution of one set of beliefs for another. The innovator is followed not because of the rationality of the innovation, but because of the irrational authority of the innovator him or herself, that is, his or her charisma.

Marx, marginalism and modern sociology

We are now in a position to return to the question posed in the first chapter of the character and scientific status of the reorientation of social thought that took place at the end of the nineteenth-century. There is little doubt that such a reorientation did in fact take place, and that this reorientation did not simply involve a change in a number of elements of a given system. It involved a fundamental change in the 'structure of the theoretical system' (Parsons, *Structure of Social Action*, p. 7). According to Parsons this change was marked by the substantive advance represented by the emergence of a voluntaristic theory of action out of the convergence of the earlier positivistic and idealistic theories of action. However, I hope to have shown in the course of this book that the development of marginalism and of Weberian sociology was not marked by such a substantive scientific revolution. The substantive foundation of marginalism and of Weber's sociology continues to be the naturalistic conception of the social relations of production of capitalist society that characterised nineteenth-century classical political economy, vulgar economy, sociology and historicism. The end of the nineteenth-century saw a reorientation of social thought, not a scientific revolution, and this reorientation was marked by a reformulation of the relationship between the theory of action and the theory of social structure.

Classical political economy, Comtean sociology and German historicism developed their theories as theories of social structure. Political economy was particularly concerned with the economic structure of capitalist society, while sociology and historicism superimposed on this economic structure a concern with capitalist moral and political institutions. The economy, morality and the State were treated for theoretical purposes as *sui generis* realities, whose development was ideally regulated by the structural laws of economic, moral and political evolution.

Although formulated as theories of social structure, political economy, sociology and historicism shared a liberal social and political orientation, seeing capitalist society as an expression of the needs and aspirations of rational individuals, and evaluated the institutions of capitalist society in relation to individual rationality. This did not mean that these theories were formulated on the basis of a rationalistic theory of action, whether positivistic or idealistic, for the theories were not formulated at the level of the theory of action. The rational individual who underpinned and legitimated the social structure characterised by the theory was not a real but an ideal individual. The conformity of the social structure with individual needs and aspirations was not conceptualised directly, by revealing the origins of social institutions in the actions of real individuals, and establishing the adequacy of those institutions to the individuals' needs and aspirations. Rather the rationality of the social structure in question was explained in terms of its results, by showing that those results conformed objectively to the abstractly defined needs and aspirations of the ideal rational individual. The achievement of the ideal society could not be entrusted to the spontaneous advance of individual reason, for the existence of ignorance, vanity, prejudice, superstition and the abuse of power were barriers to its realisation. Thus the progressive development of society depended on the subordination of the action of individuals to the reproduction of the social structure within which they were inserted. For classical political economy this implied the subordination of the individual, the State and civil society to the market through which the classical economic laws would spontaneously impose a harmonious social order. For sociology and historicism the market alone was not an adequate basis for the realisation of a rational and harmonious social order, and the operation of the market had to be confined within limits set by morality and by the State. In each case, however, the social structure to whose reproduction individuals were subordinated was defined by the social relations of capitalist production, and the ideal rationality of society was an expression of the naturalistic rationality of capitalist relations of production as the necessary expression of the division of labour. It is this common naturalisation of

capitalist social relations that defines the common ideological foundations of all these theories of capitalist society.

It is important to stress the liberalism of these nineteenth century theories, despite the fact that this liberalism was abstract. Thus the subordination of the individual to the reproduction of the social structure was not seen as the imposition of an alien authority on the individual, but as the imposition of an authority adequate to the true needs and aspirations of the individual. Thus, to the extent that individuals were enlightened by the appropriate doctrines, and so appreciated the rationality of the ideal social order, they would submit themselves voluntarily to the authority of the market, the enlightened legislator and the moral reformer. However, recognition of the persistence of ignorance, vanity and prejudice meant that political economists, sociologists and historicists did not have a complacent belief in the spontaneous advance of reason, embodied in a naive rationalistic theory of action. They were all ardent educational, moral and political reformers who formulated their theories as blueprints to guide the enlightened legislator and evangelist and as a basis on which to break down the barriers of self-interest, ignorance and superstition so that the rule of capital, its legislators and its State would rest on the enlightened consent of its beneficiaries. Correspondingly, the fact that their liberalism was based on an abstract conception of society and of human nature implied that their liberalism was politically abstract. In particular ignorance and self-interest were barriers to the realisation of the liberal ideal, and so were grounds for disqualification from admission to the constitution. The political representation of special interests had to be checked, except where the special interest conformed to the general interest (Smith's landowners, the Radicals' manufacturers, Comte's women), while the ignorance and dependence bred of poverty debarred the working class from enfranchisement (although the century was marked by growing faith in the ability of the working class to acquire enlightenment and independence). Thus social action should be permitted to be politically effective only to the extent that it was oriented by an enlightened and disinterested appreciation of the rationality of capitalist society. The viability of this abstract liberalism, and correspondingly the viability of its abstract social theories, rested on the viability of the constitutional arrangements through which the beneficent rule of capital could be enforced for the benefit of all. It was the growing reluctance of the organised working-class to submit to such rule, and its insistence on being admitted to the constitution on its own terms, that undermined not only the paternalistic rule of capital, but also the social theories that expressed this rule in the form of an abstract liberalism that subordinated real individuals to an ideal rationality.

The reorientation of social thought at the turn of the century revolved around the marginalist revolution in economics. Marginalism was based on a

rejection of the classical theory of distribution, associated with the theory of class and on the basis of which classical political economy had developed its economic laws, in favour of a rigorously individualistic theory of the capitalist economy, based on the classical theories of production and exchange, but reformulated within the framework of the theory of action. Classical political economy had centred its analysis on production, and established the ideal rationality of capitalist relations of distribution and exchange in terms of their conformity with the requirements of the expanded reproduction of the system of production. Marginalist economics centred its analysis on the individual allocating scarce resources to alternative uses. For classical political economy the individual actor was passive, playing a mediating role in the expanded reproduction of the system, subordinated by relations of distribution and exchange to the requirements of that reproduction. Thus the theory of action was subordinate to the theory of social structure. For marginalism, by contrast, the economic actor was the subject of the capitalist system of production, distribution and exchange, which was analysed as the means by which the allocation of resources could be optimally achieved on the basis of given preferences and a given initial distribution. Thus for marginalism the theory of social structure was developed on the basis of the theory of action.

The development of marginalism introduced significant changes of emphasis in the understanding of capitalist society. Where classical political economy centred its analysis on questions of growth and distribution, marginalism centred its analysis on questions of allocation and exchange. Where classical political economy justified capitalism on the basis of its development of the forces of production, marginalism justified it on the basis of its allocative efficiency. Where classical political economy developed its laws of distribution on the basis of the natural laws of population and agricultural productivity, marginalism justified distribution relations in terms of the productive contributions of the appropriate factors of production. However marginalism remained on essentially the same ideological foundations as its predecessors, those foundations being defined by the naturalisation of capitalist relations of production. Indeed marginalism, in rejecting the classical theory of class, abandoned precisely that element of classical political economy that contained within it the possibility of recognising that capitalism rests not on natural foundations, but arises on the basis of historically specific social relations of production. Thus marginalism completed the naturalisation of capitalist social relations by narrowing the scope of economics, in assigning the analysis of distribution to complementary sociological and historical disciplines, whilst broadening its ambition, in seeking to analyse the conditions for the optimal allocation of resources appropriate to any society. The development of marginalist

economics, far from representing a scientific revolution, removed from political economy its most promising elements to achieve an ideological reformulation of political economy appropriate to the economic and political maturation of capitalist society.

Nineteenth century sociology and historicism developed in opposition to classical political economy, but I have argued that they rested on common ideological foundations. We find the same relation of complementarity between marginalist economics and modern sociology. However, whereas nineteenth-century sociology and historicism had to oppose the absolutist claims of political economy, marginalism created a space within which economics and sociology could coexist as complementary disciplines. Although in the course of their economic activity social actors enter into social relations with one another, marginalist economics analyses these relations in abstraction from all social content, as expressions of individual rationality on the basis of personal preference and in the face of the constraints of natural scarcity. Thus economic theory is an abstract deductive science that establishes the ideal rationality of the fundamental economic institutions and social relations of capitalist society. *Social economics* was the complementary discipline that would study the contingent institutional barriers that impeded the realisation of the ideal rationality of capitalist economic relations. The practical and theoretical task of social economics was to make capitalism adequate to its own rhetoric. Its ideological function was to locate the irrationality of actually existing capitalism at a lower level of abstraction than its rationality, as defined by economic theory.

Social economics was essentially an empirical discipline, deriving its concepts from economic theory and measuring reality against the ideal established by the marginalist theory. However marginalism did not exclude the possibility of developing specifically sociological concepts on which to base a more rigorous analysis of the social and historical context of economic activity and a broader evaluation of capitalist society. The framework within which such a sociology could develop was that of the theory of action. The concepts of economic theory, and the concept of *economic power* that was the single theoretical contribution of social economics, were elaborated on the basis of the abstract model of the rational economic actor. Consideration of other ends and of other value-orientations of action provided a basis on which other forms of social action could be conceptualised. Moreover the economists' rational economic actor was an abstract concept, whose appropriateness depended on the dominance of a rational orientation to economic ends in actually existing society. Thus sociology had also to explore the socio-historical circumstances under which such an orientation was in fact predominant. On the basis of the *voluntaristic*

theory of action sociology could locate both itself and economics as complementary social sciences.

It was Weber who established a systematic foundation on which sociology could develop as an autonomous branch of the social sciences. Weber was able to do this essentially because he rejected the primacy accorded by the economists to economic rationality as an ethical ideal, insisting that political, religious, moral or aesthetic criteria provided just as valid a basis for evaluation, and correspondingly provided just as valid an orientation of social action. Sociology could become an autonomous discipline because it would study forms of social action that could not be comprehended by economics: it could embrace all those phenomena that could not be reduced by the *dogma of self-interest*. In this sense Weber developed the conceptual foundations for both modern economics and modern sociology. These foundations were then classically elaborated for modern economics by Lionel Robbins in *An Essay on the Nature and Significance of Economic Science* and for modern sociology by Talcott Parsons in *The Structure of Social Action*. The foundations of this intellectual division of labour were laid by the marginalist revolution: it was marginalist economics that introduced the distinction between economy and society by abstracting economic relations from all social content.

It is important to stress that this distinction, and the corresponding division of labour between economics and sociology, so taken for granted and so deeply institutionalised today, is a modern invention. It is a distinction that was forged by the marginalists in opposition to the overweening ambition of the sociological and historicist critics of political economy for whom economics would merely be 'a congeries of miscellaneous disconnected facts, or else it must fall in as one branch of Mr Spencer's sociology'. Against this the marginalists insisted that '*there must arise a science of the development of economic forms and relations*' (Jevons, *Theory*, p. 49). It was on the basis of the development of this abstract science, and of the recognition that such a science 'must be interpreted as the formulation of the relations of a limited group of analytical elements in the broader concrete system of action' (Parsons, *Structure of Social Action*, p. 757), that the intellectual division of labour between economics and sociology was worked out.

The distinction between economy and society is not an empirical distinction, but a conceptual one, resting on the conceptual distinction between the essential rationality of capitalism and its social reality, a distinction that in turn rests on the definition of economic relations as essentially asocial, concerning not relations between people, but relations of subjective evaluation of things by abstract individuals, mediated by the technical relations of production and the formal relations of exchange. The

definition of the nature and significance not only of modern economics, but also of modern sociology, depends on the legitimacy of the economists' abstraction of economic relations from their social and historical context, an abstraction that is based on the definition of economics not as the science of a particular set of social relations, but of a particular orientation of action, 'the science which studies the processes of rational acquisition of scarce means to the actor's ends by production and economic exchange, and of their rational allocation as between alternative uses' (Parsons, *Structure of Social Action*, p. 266).

Despite the fact that modern sociology has developed in opposition to the naturalistic reductionism of marginalist economics, it nevertheless rests on the same ideological foundations. These ideological foundations are not necessarily formulated explicitly, for the intellectual division of labour that separates sociology from economics and assigns the task of analysis of the social relations of capitalist production to economics, establishes the ideological foundations of sociology outside its own domain. Thus Weber, although critical of the naturalism of marginalist economics, nevertheless presupposed the marginalist naturalisation of capitalist social relations in identifying the defining characteristic of capitalist society as its rational value-orientation. The ideological foundations of modern sociology appear as sociology's fundamental presupposition in underlying the definition of the object of sociology, *society*, and so establishing the character of sociological explanation.

The task of sociology is to restore some degree of historical variety to the naturalism of economics, recognising the variability of the social and historical context within which the economic institutions and social relations of capitalist society exist. However the ideological foundations on which sociology rests present sociologists with an acute dilemma in attempting to formulate their explanations. The dilemma appears in the irreconcilability of the voluntarism of the theory of action, that defines the autonomy of sociology, with the naturalism of the theory of social structure on which it ultimately rests.

Although sociology can define its object and formulate its methodology within the framework of the theory of action, that theory cannot provide the ultimate foundation of sociological explanation, any more than economic rationality can provide the ultimate foundation of economics. The characterisation of the ends and value-orientation of action presupposes the theory of social structure that can explain the existence of a State, of religion, of particular forms of knowledge and of particular configurations of norms and values which provide the context within which alone action can acquire a social orientation. However, the ideological foundations on which modern sociology is built deprive it of the means of constructing a properly

sociological theory of social relations and social institutions. On the one hand, the theory of action abstracts the individual from the social relations within which alone he or she exists as a *social* individual and seeks to explain social relations as the product of the subjective orientation of action. Such an explanation presupposes the very social relations that it purports to explain. On the other hand, the objective foundations of capitalist society, the social relations of capitalist production, are abstracted from their particular social and historical context and are defined naturalistically as social relations imposed on society and its individual members by the natural and technological conditions of social existence. Once capitalist social relations are given an absolute and eternal status, they can only be explained by reference, on the one hand, to the freedom of the abstract individual or, on the other, to the constraints imposed by an abstract nature. Thus sociology is threatened, on the one hand, by irrationalist psychological reductionism or, on the other, by a naturalistic economic reductionism.

Weber was aware of this dilemma, but he evaded rather than resolved it by limiting the scope of sociology. As we have seen, Weber insisted that social relations and social institutions could not be given any ultimate explanation but had to be taken as the historically given starting point of sociological explanation. However, in taking social relations and social institutions as given, Weber severely restricted the explanatory powers of sociology in subordinating sociological conceptualisation to the requirements of the interpretative understanding of concrete social situations. Thus Weber's sociological concepts have no explanatory status, they are merely convenient heuristic devices pragmatically elaborated as the means of comparative and historical empirical investigations.

Sociology cannot be content to take these phenomena as given, however much modern sociologists may in practice be satisfied with such a liberal empiricism. These social relations and social institutions are not arbitrary, nor can they be given an irrational psychological explanation as the expression of innate human needs. They have a systematic social significance that it is the task of sociology to elucidate by elaborating the systematic connections between norms, values, social relations and social institutions. However, if these systematic connections cannot be explained on the basis of the theory of action, the only alternative basis that sociology has available is the naturalistic theory of capitalist social relations developed by marginalist economies.

Paradoxically it was Parsons, who had acclaimed the voluntaristic theory of action as the basis of modern sociology, who fully assimilated sociology to the naturalistic ideology of modern economics, drawing heavily on the organic evolutionism of nineteenth-century sociology, and in particular on the functionalism of Durkheim and, increasingly, of Spencer. Already, in *The*

Structure of Social Action, Parsons had criticised Weber for failing to address the problem of order in failing to give any account of the processes by which the subjectivity of the social actor is subordinated to the objective constraints of social reproduction. Parsons therefore developed his structural-functionalism in response to the problem of explaining how the ends and value-orientations of action are so defined as to make possible the reproduction of the social relations within which actors exist and that structure the subjective orientation of action. However, the naturalistic abstraction of capitalist social relations on which modern sociology is based deprived Parsons of the possibility of developing a theory that could explain these constraints sociologically, as the constraints imposed by the reproduction of particular social relations. The only objective constraints conceivable for modern sociology are the constraints of nature and of technology that underlie the social relations of capitalist production. Thus Parsons was led to resurrect the naturalistic positivism of nineteenth-century social theories.

For Parsons social institutions were conceptualised as functionally interdependent parts of an organic whole, determined by the functional requirements of social reproduction that are imposed by the advanced technology and extended division of labour on which industrial society is based. Advanced technology and an extended division of labour impose a particular form of social stratification, particular authority relations, appropriate value-orientations, and appropriate forms of socialisation as the functional imperatives imposed by the natural and technological conditions of social existence. Thus Parsons extended the marginalist naturalisation of capitalist social relations from the sphere of the economy to that of society, treating the State, religion, the family and the personality as rational expressions of the natural and technological conditions of existence of industrial society. In so doing Parsons undermined the hard-won autonomy of sociology by subordinating the interpretation of social action to the supposedly natural requirements of social reproduction.

The contrast between Weber and Parsons focuses the dilemma that confronts modern sociology of reconciling the voluntaristic theory of action, which is the necessary basis of any liberal democratic theory that believes that social order is compatible with the freedom of the individual, with the naturalistic foundations of the theory of the capitalist economy on which sociology is based, yet from which it differentiates itself. This contrast between the voluntaristic theory of action and the naturalistic theory of social structure defines the terms within which modern sociology has developed. However, the two poles of the contrast are not independent of one another. Rather they are constituted as complementary, but mutually exclusive, perspectives on society by the ideological abstraction of the individual, on

the one hand, and nature, on the other, from the social relations of capitalist production which alone mediate the relation between the individual and nature and within which alone nature and the individual exist socially. Thus modern sociology is condemned to exist within a world defined by a series of abstract dualisms which reflect the inadequacy of its foundations but which nevertheless structure sociological debate: structure-action; object-subject; positivism-humanism; holism-individualism; society-individual; explanation-understanding; order-conflict; authority-consent.

We can now see that Parsons was right to identify the birth of modern sociology with the emergence of the voluntaristic theory of action as the basis of the social sciences. However he was wrong to see this as an immanent scientific development, whose simultaneous emergence in the work of disparate thinkers was testimony to its truth, and he considerably overemphasised the substantive significance of the change. Indeed it was Parsons himself, more than anybody else, who re-established the continuity between the older theories of social structure and the newer theories of social action.

Although it is true that the development of marginalism can be explained by reference to the increasingly apparent empirical and theoretical inadequacy of classical political economy and of nineteenth-century sociology and historicism, this inadequacy was not defined in relation to some abstract scientific problem, but in relation to the practical demands made of social theory. Marginalism and modern sociology did not develop as more adequate responses to a universal problem of order, but as responses to a reformulation of the problem of order corresponding to social and political changes associated with the maturity of capitalist society. Moreover the problem of order was not simply a theoretical problem; it was an intensely political problem. The problem of order was posed by the existence of social conflict, and the problem was to establish a basis on which that conflict could be ameliorated if not eliminated. But the very fact of conflict implies that there is no consensus as to the proper basis on which order should be re-established. In particular the growth of socialism presented a challenge to the very foundations of capitalist society, proposing to establish order on the basis of the abolition of capitalist relations of production, distribution and exchange. Socialism did not present a threat to order in the abstract, it presented a threat to the existing social order. The problem of order in response to which marginalism and modern sociology developed was the problem of achieving the social and political stabilisation of capitalist society on the basis of capitalist relations of production, distribution and exchange. Thus the problem of order to which they responded was an inherently ideological problem. The specific ideological character of the solutions that they proposed was defined by their naturalisation of capitalist social relations

as the rational expression of the natural and technological constraints that confronted the individual in modern society.

Within this ideological framework a range of solutions could be presented, and this was the great strength of the theories developed by marginalism and by modern sociology. The marginalist revolution was not ideological in the sense that it imposed one particular ideological and political orientation. Rather it provided a framework within which social and political debate could take place, just as political economy had done in the different circumstances of the nineteenth-century. Thus marginalism could embrace the reformist socialism of the Fabians and the revisionist wing of German Social Democracy, the liberal reformism of Wicksell, Cassel, Walras, Wieser, Marshall, Pigou, Keynes and Beveridge, and the conservative liberalism of Jevons, Hayek, von Mises and Milton Friedman. A complementary sociology could be developed by Weber as the basis of a liberal political reformism, or by Pareto as a framework within which to conceptualise the role of the irrational in social life on the basis of which a conservative élite theory, that fed into fascism, could be developed. Contemporary sociology can embrace the technologicistic positivism of the theorists of industrial society, the empiricism of neo-Weberians and the irrationalist voluntarism of ethnomethodology and interactionism. However, flexible as it might be, there are limits to the flexibility of this framework, and these limits are set by the naturalistic conception of the social relations of capitalist production on which all fifty-seven and more varieties of modern economics and modern sociology are based.

There was a scientific revolution in nineteenth-century social thought, but it was one that Parsons ignored. It was inaugurated by Marx's critique of the ideological foundations of classical political economy, which he located in the political economists' neglect of the social form of capitalist production which was the basis of their naturalisation of capitalist social relations. For Marx society could not be explained abstractly, on the basis of the confrontation between abstract individuals and an abstract nature. Society arises and develops only in particular historical circumstances. However this did not lead Marx into an historicist empiricism, for the social forms within which individuals relate to nature are not arbitrary, any more than they are imposed by nature. They have a systematic significance as the social relations of production and reproduction within which individuals associate with one another in order to secure their own reproduction and that of society. Capitalist society is a society based on a particular social form of production, within which the production and reproduction of material things is subordinated to the production and accumulation of surplus value, and within which the participation of the individual in society is conditional on the individual's insertion into the social relations of production. Thus Marx's

critique of political economy established an alternative foundation on which to build a theory of capitalist society whose fundamental concepts would be those of *value*, *surplus value* and *class*.

Although Marx inaugurated a scientific revolution, this does not mean that his work did not also arise on ideological foundations. Marx developed his critique of political economy only on the basis of the practical critique of capitalism developed by the growing working class movement. In response to the problem of order Marx adopted no less of a class perspective than did his *bourgeois* opponents. However all class perspectives are not alike: whereas a *bourgeois* class perspective dictates an uncritical approach to the foundations of capitalist society, however critical it might be of what it considers to be the superficial deformities of capitalism, a working-class perspective opens up the possibility of a critical approach not only to specific institutional arrangements, but also to the very foundations of capitalism. While a critical approach is not a sufficient condition for scientific advance, and so is by no means a necessary guarantee of the truth of an analysis, it is certainly a necessary condition for scientific progress. It is in this respect that Marx's critique of political economy inaugurated a scientific revolution, not so much in the answers Marx proposed, as in the questions he advanced.

Marx certainly raised many more questions than he answered, and many more questions that Marx never confronted have been raised since. Marx did not provide a complete theory of capitalist society that can be offered as a ready-made alternative to the theories of modern economics and of modern sociology. There are many questions in response to which economics and sociology have developed concepts and methods of analysis, to say nothing of empirical investigation, that transcend the ideological limitations of those disciplines. What Marx did was to establish new conceptual foundations on which a more adequate understanding of capitalist society could be built. It is to the discredit of academic social scientists, not of Marx, that one hundred years have passed without such an understanding having advanced far beyond the tentative foundations provided by Marx.