

Marx's Critique of Political Economy

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Marx began his study of Political Economy as early as 1843 with his "Comments on James Mill," and continued through to the publication of the first volume of *Capital* in 1867, with several extended breaks when illness and the demands of agitational and political work overtook his economic studies.

In line with the method of immanent critique which he learnt from Hegel (the Introduction to the *Encyclopaedia Logic* is the best example of Hegel's use of this method), Marx examined each work in detail, tracing the reasoning of each work and each dispute and following the course of the science and diagnosing its failure to produce a genuine science, and seeking a way forward.

Marx credited William Petty (1623-1687) with having been the first to have attempted to build a *system* of concepts with his *Political Arithmetik*. The giants of the field were Adam Smith whose *Wealth of Nations* was published in 1776 and David Ricardo whose *On The Principles of Political Economy and Taxation* was published in 1817.

Political economy had achieved a certain comprehensiveness with Adam Smith; to a certain extent he had covered the whole of its territory, so that Say was able to summarise it all in one textbook, superficially but quite systematically.

Marx, 1861, ch 10

It was Adam Smith who first formulated the labour theory of value. According to Ricardo:

"It has been observed by Adam Smith, that 'the word Value has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called value in use; the other value in exchange.'" (citing Smith, 1776, Book 1, Ch 4)

What Smith perceived as ambiguity is in fact the marker of a true concept. It is not the case that value has two *alternative* meanings, but rather that the concept of value is the necessary coincidence of two processes, and it is this connection alone which can form the basis for a true concept of value, not one or the other independently.

"'The real price of every thing,' says Adam Smith, 'what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to it, or the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.' 'Labour was the first price – the original purchase-money that was paid for all things.'" (citing Smith, 1776, Book 1, Ch 5)

Smith however made no attempt to make this observation into the founding principle of Political Economy. He mixed it up with sundry empirical

observations, and like almost all Political Economists to follow, held that rather than having a single substance, value had multiple sources apart from labour – the land, the capital itself borrowed to establish the enterprise and the “inspection and direction” (1776, Book 1, Ch 6) of the capitalist. Each source had to be rewarded respectively with rent, interest, profit and wages with these diverse components each contributing to value.

Ricardo, on the other hand, declared in the subheading of Chapter 1, “On Value” of his *Principles* (1817):

“The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour.”

He then endeavoured to show that “each separate form of wealth must be understood as modifications of one and the same universal substance rather than simply described.” (Marx, *Theories of Surplus Value*, Ch. 10, 1863)

But rather than building his theory step by step from his definition of value:

In this first chapter not only are *commodities* assumed to exist – and when considering value as such, nothing further is required – but also wages, capital, profit, the general rate of profit and even ... the various forms of capital as they arise from the process of circulation, and also the difference between “natural and market-price”. (Marx, *Theories of Surplus Value*, Ch. 10, 1863)

In that same Chapter One, “the permanent rate of profits” was taken as a given datum. A more or less uniform rate of profit across the entire economy was an empirical fact, but by introducing as simply something given at the very outset of his theory, Ricardo undermined the basis of the theory he wanted to build.

Ricardo showed that a general rise in wages will necessarily result *not* in a rise in the price of commodities, as is widely believed to this day, but rather a corresponding reduction in the rate of profit. However, Ricardo never derived the general rate of profit from his theory of value, but merely took it as a given datum as if it arose from the customs and habits of the people, just as “the natural price of labour ... essentially depends on the habits and customs of the people” (1817, Ch. 5). Likewise, the money-commodity was posited right away in Chapter 1 without any reflection on the origin of money, its nature or the multiple functions which money performs in a capitalist economy.

Marx was clear that identification of a single principle which made every species of value in bourgeois society a modification of one universal substance was the necessary basis for the formation of political economy as a science. Wages, money, capital, interest, profit all had to be *derived* as forms of value and their nature and relation to each other determined in this way.

Working through Ricardo’s work line-by-line Marx identified frequent logical errors. His categories were not clearly formed and shifted from one chapter to another; he distinguished, as was the custom, between fixed and circulating capital – categories which fail to distinguish between what Marx called constant capital (which Ricardo wrongly equated with “fixed capital”) and variable capital; value was confused with cost price; he always considered the length of the working day as a fixed quantity; he frequently used examples in which

constant capital was assumed to be zero, obscuring the difference between the rate of surplus value and the rate of profit. This failure to account for the difference between the quantity of profit as a proportion of total capital invested, and the same absolute quantity as a proportion of living labour employed Marx saw as a crucial failure.

These weaknesses were evident not to Marx alone, but were the basis on which Ricardo's opponents used to dismiss his theory. On the other hand, his followers tried to fix the theory by ridding it of its contradictions, but in so doing, Marx observed, political economy went into decline, abandoning Ricardo's effort to bring political economy under a single unifying principle.

However, the fact remained that a labour theory of value was in direct contradiction to a uniform general rate of profit, both written into his theory from the very beginning, meaning that contradictions *could not* be eliminated from Ricardo's theory without destroying the theory as a whole. The reality of capitalism itself contains a contradiction and this contradiction had to be made explicit in the theory.

Further,

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. Hence he does not grasp the connection of this labour with money or that it must assume the form of money.” (Marx, 1863, ch 10)

The chief task in front of Marx in composing *Capital* was to make the labour theory of value into the consistent, unifying, scientific principle of Political Economy, and *derive* the nature of money, capital and the general rate of profit as an outcome of the theory. Marx also needed to be able to advise the workers' movement as to how the living standards of workers could be advanced and identify tendencies toward crisis inherent in bourgeois society which would provide the conditions for the overthrow of capital.

The most challenging task Marx faced was how to retain the integrity of the labour theory of value and yet derive the uniform general rate of profit which stands in direct contradiction to the labour theory of value.