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Proudhon's constituted value and the myth of labour notes

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December 12, 2017

Retrieved on 24th April 2021 from anarchism.pageabode.com
Anarchist Studies Volume 25 No. 1

usa.anarchistlibraries.net

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conclusions – it is just that Marx's *The Poverty of Philosophy* is not that work.

End notes

in a sectarian attack has become accepted as an accurate reflection of Proudhon's ideas. As shown, while Marx asserted that Proudhon advocated 'labour notes' he mustered nothing as trivial as evidence in support.

Proudhon did not advocate pricing goods by time-units and 'constituted value' was the ability of any commodity (priced in francs) to act as the backing for money by means of mutual credit and bills of exchange. He also utilised the concept to indicate what regulates the oscillations of value on the market and explain how labour was exploited by capital. While seeking to end the latter, he did not advocate ending the former. Unlike John Bray, to whom Marx compared him, Proudhon does not invent a system of social organisation to equate supply and demand at a good's labour-time cost simply because he did not advocate replacing the market and its 'law of value'.

Sadly, by taking Marx as a disinterested and reliable critic far too many since then have contributed to 'the perpetuation of a spiteful distortion of [Proudhon's] thought' produced by Marx's 'desire to denigrate the socialist thought of his contemporaries, especially of those of whom he perceived as his strongest competitors.' This means that the 'most persistent misconceptions concerning Proudhon's thought result from the continued reverence shown Marx and, as a result, his assessment of Proudhon and 'utopian socialism.''¹²⁸

Marx's dishonest polemic has – as surely intended – hidden from generations of radicals how Proudhon's *System of Economic Contradictions* (like his other books) is an important and interesting work which, when freed from his erroneous critiques and their legacy, has something to offer us today. This does not mean that Proudhon was completely correct. His ideas do need to be critiqued – as Joseph Déjacque (1821–1864) did during Proudhon's lifetime to draw libertarian communist

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¹²⁸ Vincent, 230

Conclusion

Marx seriously misrepresented many of Proudhon's ideas and so we have concentrated on just one aspect of his polemic, namely that Proudhon's 'constituted value' equals 'labour-notes'. We have shown that this is not the case and, moreover, Marx also distorts the ideas of John Bray in the process. The irony is that of the two, it was not Proudhon who advocated labour-notes but Marx (most famously in his *Critique of the Gotha Programme*). Even more ironically, many of his points against Proudhon made in 1847 are refuted by Marx's own later work which is based on a deeper understand of the issues.

Given this, it is perhaps unsurprising that '[f]rom the point of view of its discussions of political economy,' Marx's book is 'an enigmatic work. Its *apparent* contents promise much, but in substance it delivers little that was of lasting relevance in the evolution of Marx's critique of political economy [...] The titles of some sections suggest a potential scope and sophistication of critical analysis that is just not realised.'¹²⁶ Regardless of Marx's later claims¹²⁷, *The Poverty of Philosophy* is not a work of serious scholarship but rather a hatchet-job which does not bother with accuracy or honesty to discredit and mock someone Marx wished to replace in terms of influence in the socialist movement.

Marx's book initially – and deservedly – fell into obscurity after initial publication, undoubtedly because anyone familiar with Proudhon's work would have quickly seen the flaws in it. However, as Marx's influence rose this became less obvious as few bothered to read the book he was attacking. Its endless repetition by Marxists has ensured that a myth produced

¹²⁶ Oakley, 109–10

¹²⁷ *A Contribution to the Critique of Political Economy* (London: Lawrence & Wishart, 1970), 22

complex functions which the market performed and which would therefore have to be fulfilled by the central and local boards which Bray proposed.

However, leaving aside the problem of acquiring the information upon which informed economic decisions could be based, there remained the problem of how that information, once gathered, could best be used. On what basis and by reference to what criteria would calculation proceed. [...] Bray spirited away the problems he has set himself.¹²⁴

The same can be said of Marx. As one Marxist – apparently without the slightest trace of embarrassment – admits: ‘In deciding how much of any given article to produce, the planners have to strike a balance between social need, available labour-time and the existing means of production. Although Marx recognises that demand is elastic he never doubts that his proletarian planners – whose actual planning mechanisms are never discussed – will make the right equations.’¹²⁵

This, of course, does not mean that central planning is impossible (the Soviet Union did practice a form of it for decades) just that it will not work as efficiently as hoped nor produce the classless society desired. Given this, it is understandable that many socialists who have been seeking an alternative to central planning have – always unknowingly – repeated the ideas Proudhon raised in 1846 in terms of their critiques of capitalism and state socialism as well as in their positive visions of a post-capitalist system.

¹²⁴ Thompson, 111

¹²⁵ Bertell Ollman, *Social and Sexual Revolution: Essays on Marx and Reich* (Montreal: Black Rose Books, 1978), 63

Abstract

Karl Marx’s *The Poverty of Philosophy* has played a key role in associating Pierre-Joseph Proudhon with the idea of labour-time money. This article challenges this account by demonstrating that Marx not only failed to prove his assertion but that he also ignored substantial evidence against it. Proudhon’s ‘constituted value’ is explained and linked to other key ideas in *System of Economic Contradictions* which Marx ignores.¹

Pierre-Joseph Proudhon (1809–1865) was a French working class thinker who was the first person to proclaim themselves an anarchist in his seminal 1840 work *What is Property?*. From then until his death – and beyond, in terms of his posthumously published work *On the Political Capacity of the Working Classes* which he dictated on his deathbed – he was one of the leading socialist thinkers in France and whose influence was felt across Europe and in America. However, very little of his voluminous output has been translated into English which has led many to base their understanding of his ideas on secondary sources. At the forefront is *The Poverty of Philosophy*² by Karl Marx (1813–1883). This was ostensibly a reply to Proudhon’s two volume *System of Economic Contradictions* which had been published the previous year, 1846. The work, whose title is a parody of the subtitle of Proudhon’s book, was proclaimed by the Frenchman as ‘the libel of one doctor Marx’ and dismissed as ‘a tissue of crudities, slanders, falsifications, and plagiarism.’³ Unfortunately, while he made marginal notes in the copy Marx sent him, Proudhon never publicly replied to the work and as

¹ I would like to thank Shawn P. Wilbur and Lucien van der Walt for their comments and suggestions.

² ‘The Poverty of Philosophy, Answer to the *Philosophy of Poverty* by M. Proudhon’, *Marx-Engels Collected Works (MECW)* 6: 105–212

³ *Correspondance* (Paris: Lacroix, 1875) II: 267–8. My translation.

Proudhon's influence waned and Marx's rose, Marx's account of his ideas have taken root – in part due to endless repetition by Marxists.

Space precludes addressing all the inventions and misrepresentations Marx inflicted on Proudhon's work⁴ so it is necessary to focus on one of the key inventions of Marx, namely the notion that Proudhon advocated 'labour-notes' (also known as 'labour-time money,' 'labour cheques,' 'labour vouchers,' or 'time-chits'). This has been repeated by numerous Marxists discussing Proudhon's ideas and has even seeped into anarchist accounts. Kropotkin, for example, in spite stating *System of Economic Contradictions* was a 'work which, of course, lost none of its considerable merit on account of Marx's malignant pamphlet' also states that Proudhon took up 'Robert Owen's system of labour cheques representing hours of labour', thought the 'values of all the commodities' should be 'measured by the amount of labour necessary to produce them' and 'all the exchanges between the producers could be carried on by means of a national bank, which would accept payment in labour cheques.'⁵

This position is so well established in the literature that, for example, Leszek Kolakowski while recognising that 'Marx's criticism was unjust and dishonest in some respects' also reiterates that Proudhon thought 'each person should receive, from the products of others' labours, the exact equivalent of what he himself produces, and this equivalence must be measured in hours of work.' It is a surprise, then, to discover that Marx never quoted Proudhon on this and instead simply as-

⁴ My introduction to *Property is Theft! A Pierre-Joseph Proudhon Anthology* (Edinburgh/Oakland/Baltimore: AK Press, 2011) has an appendix on both Marx and *The Poverty of Philosophy* while its extracts from Proudhon's *System of Economic Contradictions* have numerous footnotes contrasting what he argued to what Marx claimed he wrote.

⁵ *Direct Struggle Against Capital: A Peter Kropotkin Anthology* (Edinburgh/Oakland/Baltimore: AK Press, 2014), Iain McKay (ed.), 214, 183

on planning is woefully short and based on generalising from two individuals ('Peter and Paul') to conclude that 'if all the members of society are supposed to be immediate workers, the exchange of equal quantities of hours of labour is possible only on condition that the number of hours to be spent on material production is agreed on beforehand. But such an agreement negates individual exchange.'¹²²

This fails to comprehend the difficulties involved when we move from a thought experiment involving two people producing two products to something more realistic: 'a simple problem involving 2 objectives and 2 variants will have 4 solutions. With 5 objectives and 3 variations we already have 243 solutions. With 500 objectives and 10 variants (still a very simple economic planning problem) the number of solutions is 10500 (i.e., a '1' followed by 500 zeros). This is much more than the number of atoms in the entire universe'.¹²³

Marx's alternative, then, is far easier to imagine than to implement. It ignores the complexity of a real economy as well as committing the fallacy of composition – what is feasible for two people becomes increasingly unfeasible on a larger scale. Noel Thompson's comments on Bray's planning system are appropriate here:

Bray was aware of the need to acquire systematically the information on which to base decisions of those who managed the means of production [...] Bray suffered from an inability to see and a failure to confront the magnitude of the task. Thus, for example, the problem of managing a socialist economy was likened to that of overseeing an 'individual enterprise'; a naïve suggestion which could only have been born out of an ignorance of the

¹²² MECW 6: 142–3

¹²³ Geoff Hodgson, *The Democratic Economy: A new look at planning, markets and power* (Harmondsworth: Penguin books, 1984), 170–1

country [...] is possessed and controlled by society at large [...] society is, as it were, one great joint-stock company, composed of an indefinite number of smaller companies'. There would be 'a power capable of regulating and adjusting the movements of society as a whole [...] directing all efforts, in one harmonious flow, to a well-defined and proper end' and 'acting throughout upon a well-known and well-tried plan of operations' using 'statistics of every kind [which would] acquire a degree of correctness and perfection such as they can never attain to under the existing system'. The 'production and transport of all kinds of commodities would be properly regulated and adjusted [...] The affairs of society at large would be regulated and controlled by general and local boards of all kinds [...] A national bank would create the circulating medium, and issue it to the managers of the various companies in proportion to the number of members in each company, or the character of their occupation.' Production and distribution, then, would be '*regulated throughout society at large* – being alternatively increased, or decreased, or turned to new channels as the exigencies of society require' and 'the members of the companies would work the same number of hours and receive the same uniform rate of wages'.¹²⁰ In short: 'Competition could have no existence in a change like this'.¹²¹

None of this equates to anything Proudhon argued for in *System of Economic Contradictions*. Marx, then, turned Bray (advocate of planning) into Proudhon (market socialist) and Proudhon (prices) into Bray (labour-notes) in order to attack both. Neither writer was allowed to be themselves.

Marx's 'few words' against Bray in reality simply repeat Bray's own conclusions – presumably on the assumption his reader is (as with Proudhon's work) not familiar with it nor had plans to become so. Compared to Bray, Marx's discussion

serted that his 'constituted value' meant that products 'will in future be exchanged in the exact ratio of the labour time they have cost'⁶. As will be shown, Proudhon was very clear what 'constituted value' was and it was not this. Similarly, Marx asserted the equivalence of the Frenchman's ideas with those of British socialist John Francis Bray (1809–1897) when, as will also be indicated, he was an advocate of central planning, a position completely different to Proudhon's.

As well as addressing a historic wrong, this analysis of Proudhon's ideas has current relevance in the debates within the socialist movement over market socialism.⁷ With the obvious failures of Soviet-style central planning, a number of writers have sought to utilise Marx to underpin attempts to develop a model of socialism based on co-operatives exchanging goods via markets.⁸ An accurate account of Proudhon's ideas – especially his theory of labour exploitation – shows that such appeals to Marx are unnecessary (particularly given his opposition to all forms of markets) and that Proudhon should be acknowledged as one of the first market socialists.

⁶ MECW 6: 132

⁷ Geoffrey Hodgson's *Economics and Utopia: why the learning economy is not the end of history* (London: Routledge, 1999) provides a good introduction to the history of market socialism and what theories are genuine forms of it. He notes that Proudhon's ideas 'could be described as an early form of market socialism'. (20)

⁸ See, for example, David Schweickart's *Against Capitalism* (Cambridge: Cambridge University Press, 1993), Theodore A. Burczak's *Socialism after Hayek* (Ann Arbor: University of Michigan Press, 2006) and Richard Wolff's *Democracy at work: A cure for capitalism* (Chicago: Haymarket Books, 2012)

¹²⁰ Bray, 160, 170, 194, 169, 162, 180, 181, 160

¹²¹ Bray, 158

Proudhon's System

Proudhon's two volume *System of Economic Contradictions*⁹ appeared in 1846 and followed in the wake of his three *Memoirs* on property (*What is Property?* in 1840, *Letter to M. Blanqui* in 1841 and *Warning to Proprietors* in 1842) and *The Creation of Order in Humanity* (1843). It built upon and extended these works by repeating his critique of capitalism and what he termed community¹⁰ as well as utilising a methodology based on a hybrid of Kant and Hegel.

The aim of the work is to understand and critique capitalism – the economic system of its title – by building a model of it which exposes its contradictions rather than present a history of capitalism. Proudhon organised his chapters on specific aspects of capitalism (value, division of labour, machinery, etc.) into sections about a category's thesis and antithesis. Categories were used simply as a method of analysis and presentation.¹¹ He started with value and the contradiction between ex-

⁹ *Système des contradictions économiques ou Philosophie de la misère (Système)* (Paris: Guillaumin, 1846). All quotations from this work used in this article are either my original translations or revised by me from those contained in *Property is Theft!*

¹⁰ This term (*communauté*) is often translated as 'communism' but in reality Proudhon was referring to the schemes of such utopian socialists as Fourier and Saint-Simon. These communities did not aim to abolish money nor, for that matter, end property income. Proudhon objected to these highly regulated systems because 'the community is proprietor, and proprietor not only of the goods, but of the persons and wills.' ('What is Property?', *Property is Theft!*, 131) A large part of *System of Economic Contradictions* including Chapter XII (which is entitled 'La Communauté' and dedicated to critiquing it) is directed against those socialists who presented visions of ideal communities instead of basing their ideas on developments within current society which pointed beyond it, a position Marx later echoed.

¹¹ Regardless of Marx's assertions, Proudhon is aware that '[i]n practice, all these things are inseparable and simultaneous; but in the theory they are distinct and consecutive; and property is no more monopoly than the machine is the division of labour, even though monopoly is almost always

This raises an obvious question: did Bray see the future society in the same way as Proudhon? The answer is no. Bray did not advocate the same kind of socialism as Proudhon – quite the reverse for Bray, like Marx, was an advocate of central planning: 'On the surface Bray's solution [...] would seem to have laid the basis for some kind of market socialism. However, a closer reading of *Labour's Wrongs* shows that his intention was to abolish the market and replace the motive force of competition by the conscious, rational, economic planning and decision-making of central and local authorities.'¹¹⁸

Marx quoted a passage by Bray that indicated the unsuitability of his own comparison:

By means of general and local boards of trade, and the directors attached to each individual company, the quantities of the various commodities required for consumption – the relative value of each in regard to each other – the number of hands required in various trades and descriptions of labour – and all other matters connected with production and distribution, could in a short time be as easily determined for a nation as for an individual company under the present arrangements¹¹⁹

An 'individual company' does not allocate labour and products within it by means of the market but rather conscious allocation – planning. That Bray advocated central planning is confirmed by other passages that Marx failed to quote. Thus 'joint-stock companies are formed' and 'their transactions governed by general and local boards of trade, which would regulate production and distribution in gross' for 'all the real capital of the

¹¹⁸ Noel W. Thompson, *The market and its critics: socialist political economy in nineteenth century Britain* (London: Routledge, 1988), 110

¹¹⁹ J.F., Bray, *Labour's Wrongs and Labour's Remedy* (Leeds: David Green, 1839), 162.

in them, and the whole of society would consist of a federation of producers, both industrial and agricultural. This, among other things, would resolve the contradiction inherent in machinery, which on the one hand was a triumph of the human spirit over matter, but on the other hand spelt unemployment, low wages, overproduction, and the ruin of the working class. This plan would also resolve the contradiction in the division of labour, which was an instrument of progress yet which degraded human beings into mere parts of themselves.¹¹⁵

Given that ‘the possession of these various instruments of production is already a monopoly’ and ‘inequalities [are] created by these monopolies’, this socialisation indicates, how ‘the work incorporated by each producer in their product be the only thing which is paid for when they come to exchange’.¹¹⁶

John Bray and Central Planning

Proudhon’s ‘organisation of labour’ is a form of market socialism in which producer co-operatives sell the products of their labour for francs on a market in which every good could be used as backing for money. Rather than quote Proudhon on ‘labour-money’, Marx turned to British socialist John Bray in whom ‘we think that we have discovered [...] the key to the past, present and future works of M. Proudhon’¹¹⁷ and quotes extensively from his book *Labour’s Wrongs and Labour’s Remedy*.

¹¹⁵ Kolakowski, 207–8

¹¹⁶ *Système* II: 65

¹¹⁷ *MECW* 6: 138

change value and use value, then added the division of labour, machinery, etc. to enrich the model and make it more realistic. The goal was to show that ‘the misery that grips the civilised [...] has a sole cause, not the absence of work, but a defect of the organisation in labour’¹² and how all aspects of the system combine to oppress and exploit the working class:

we have catalogued and critiqued these forms or categories of work. They are: the division of labour, machines, competition, monopoly, the State or centralisation, free trade, credit, property and community. The result of our analysis is that if work has in itself the means of creating wealth, these means, by their own antagonism, are likely to become as many new causes of misery; and as political economy is nothing other than the affirmation of this antagonism, it is consequently proven that political economy is the affirmation and organisation of pauperism. The question is [...] how we will eliminate the pauperism which results from the inherent vice of work, or, rather, of the false organization of labour, political economy.¹³

Unlike bourgeois economists, he was well aware the current system was the latest of many and, like previous ones, could and would be replaced by another: ‘guided by the idea that we have formed of social science, we shall affirm, against the socialists and against the economists, not that labour *must be organised*, nor that it is *organised* but that it is *being organised* [...] in its present form, the organisation [of labour] is inadequate

and almost necessarily accompanied by property, as division almost always and almost necessarily supposes the use of machines.’ (*Système* II: 250–1)

¹² *Système* II: 418

¹³ *Système* II: 419–20

and transitory'. Capitalism had to be replaced because, for example, 'machinery, like the division of labour, in the present system of social economy is at once a source of wealth and a permanent and fatal cause of misery'. Proudhon recognised the class nature of modern society and sought to indicate 'the most salient episodes and the most remarkable phases of the war between labour and capital' and how 'the increase of misery in the present state of society is parallel and equal to the increase of wealth – which completely annuls the merits of political economy.' He also noted the apologetic role of bourgeois economics: 'Political economy – that is, proprietary despotism – can never be in the wrong: it must be the proletariat.'¹⁴

The work is primarily a critique and Proudhon was very clear that his aim was not to present an alternative as such. This means that while the *thesis* and *antithesis* are discussed in some detail, the *synthesis* (solution) is either not mentioned at all or just in passing. In terms of positive alternatives drawn from his critique, he explicitly stated that he 'will reserve this subject ['the organisation of labour'] for the time when, the theory of economic contradictions being finished, we shall have found in their general equation the programme of association, which we shall then publish in contrast with the practice and conceptions of our predecessors.'¹⁵ While he names his alternative mutualism¹⁶ for the first time, it is sketched for the focus is very much on analysing and understanding capitalism and its tendencies.

¹⁴ *Système I*: 14, 167, 91–2, 31, 148

¹⁵ *Système I*: 176

¹⁶ Proudhon did not invent the term 'mutualism'. The workers' organisations in Lyon, where he stayed in 1843, used it in the 1830s and 1840s and there is 'close similarity between the associational ideal of Proudhon [...] and the program of the Lyon Mutualists'. (Steven K. Vincent, *Pierre-Joseph Proudhon and the Rise of French Republican Socialism* [Oxford: Oxford University Press, 1984], 164)

surplus-value, the surplus labour over and above their necessary requirements, though the result of this would belong to themselves [...] they would both receive the same wages plus the same profit, which would be equal to the value expressed in the product, say, of a 10-hour working day¹¹¹

This admission shows the weakness of Marx's assertion that Proudhon failed to recognise that economic categories 'are as little eternal as the relations they express. They are *historical and transitory products*.'¹¹² Proudhon himself made that exact point by noting that 'the radical vice of political economy' was 'affirming as a definitive state a transitory condition – namely, the division of society into patricians and proletarians'.¹¹³ Marx, then, was like the bourgeois economist who 'confounds the most disparate things, association and wage-labour, usury and partnership.'¹¹⁴

The 'organisation of labour' was the only means to end capitalism and its contradictions:

property in the sense of monopoly is done away with, but not in the sense of the producer's right to use the means of production as he wishes – a right which is the condition of personal freedom and individual sovereignty [...] he [Proudhon] did not contemplate a return from mechanized industry to craftsmanship. He was concerned rather with what he called 'industrial democracy', i.e., that the workers should retain control over the means of production. Productive units must be the collective property of all those employed

¹¹¹ *Capital III*: 276

¹¹² *MECW* 6: 166

¹¹³ *Système I*: 26

¹¹⁴ *Système II*: 46

In measuring the value of commodities by labour, M. Proudhon vaguely glimpses the impossibility of excluding labour from this same measure, in so far as labour has a value, as labour is a commodity. He has a misgiving that it is turning the wage minimum into the natural and normal price of immediate labour, that it is accepting the existing state of society. So, to get away from this fatal consequence, he faces about and asserts that labour is not a commodity, that it cannot have value. He forgets that he himself has taken the value of labour as a measure, he forgets that his whole system rests on labour as a commodity, on labour which is bartered, bought, sold, exchanged for produce, etc., on labour, in fact, which is an immediate source of income for the worker. He forgets everything.

To save his system, he consents to sacrifice its basis.¹¹⁰

Proudhon aimed to end 'labour as a commodity' as he, unlike Marx at this time, recognised the difference between selling the products of labour and selling the ability to labour. Only the latter is capitalism as Marx belatedly came to understand:

Let us suppose the workers are themselves in possession of their respective means of production and exchange their commodities with one another. These commodities would not be products of capital [...] they [the workers] would have [...] created an equal quantity of new value, i.e., the working day added to the means of production. This would comprise their wages plus

¹¹⁰ MECW 6: 130

Proudhon's aim was social equality and he argued that the development of capitalism creates the preconditions for socialism. This explains his opposition to the utopian socialists who simply denounced capitalism while inventing ideal systems to replace it:

It is important, then, that we should resume the study of economic facts and practices, discover their meaning, and formulate their philosophy. Until this is done, no knowledge of social progress can be acquired, no reform attempted. The error of socialism has consisted hitherto in perpetuating religious reverie by launching forward into a fantastic future instead of seizing the reality which is crushing it; as the wrong of the economists has been in regarding every accomplished fact as an injunction against any proposal for change.

For my own part, such is not my conception of economic science, the true social science. Instead of offering *a priori* arguments as solutions of the formidable problems of the organisation of labour and the distribution of wealth, I shall interrogate political economy as the depository of the secret thoughts of humanity.¹⁷

Thus the 'guarantee of our liberty lies in the progress of our torture.'¹⁸ Rather than abstractly compare today's grim reality to an ideal vision of tomorrow's perfect community, Proudhon analysed capitalism in order to understand it and tendencies within it which show – in embryo – what will transcend it. More: his analysis and critique of capitalism feed directly into his vision of socialism as can be seen from Proudhon's linking of his theory of exploitation to his theory of association.

¹⁷ *Système I*: 89

¹⁸ *Système I*: 178

Perhaps needless to say, Marx completely ignored all this. This is made easier by the shortcomings of Proudhon's two-volume work. It is full of polemics against noted individuals and on issues of the day (not all of which are economic). It is steeped in irony and sarcasm. Proudhon is at times verbose and indulges in digressions and asides from the main topic he is addressing. His analysis is scattered across many different chapters and so the reader is tasked with extracting, say, his theory of exploitation from his discussion of machinery, monopoly and property. This not only can frustrate the casual reader but it gives an unscrupulous critic immense leeway to misrepresent his ideas by quoting extensively from the first (positive) section and ignoring the second (negative) one. He sometimes expresses himself in words which, if quoted out of context, can appear to contradict his method and his theories. Even apparently redundant sections such as the prologue on God and Chapter VIII on Providence play a polemical role, the former against those French socialists who tied their politics to religion and the latter against those French economists who explained away the problems of capitalism by proclaiming that this is just the way it is and cannot be bettered. It also assumes that the reader has a firm grasp of many subjects, not least the works of economists like Adam Smith, David Ricardo and Jean-Baptiste Say.

This means that *System of Economic Contradictions* needs to be studied as a whole as key ideas are intertwined across many chapters. It is neither a book that can be superficially read nor grasped without understanding the social and intellectual context in which it was written. Nor can it be understood if the reader has 'skimmed through it in two days' and 'read the book very cursorily'¹⁹ – as becomes clear when reading Marx's comments in his letter to Annenkov that were later expanded into *The Poverty of Philosophy*.

¹⁹ MECW 38: 95

ments in its productive powers to which the division of labour gives occasion. All things would gradually have become cheaper. They would have been produced by a smaller quantity of labour¹⁰⁶

'The justice that Adam Smith would like to establish,' Proudhon wrote, 'is impracticable in the regime of property.'¹⁰⁷ He wished to ensure that workers do not 'share' the product of their labour with the owning class by reuniting workers with their means of production. He would, however, keep the market and this has led some to suggest that market socialism is somehow capitalist.¹⁰⁸ Yet, as Marx suggested, the 'historical conditions of [capital's] existence are by no means given with the mere circulation of money and commodities. It arises only when the owner of the means of production and subsistence finds the free worker available on the market, as the seller of his own labour-power.' The 'means of production and subsistence, while they remain the property of the immediate producer, are not capital. They only become capital under circumstances in which they serve at the same time as means of exploitation of, and domination over, the worker.'¹⁰⁹

That Marx in 1847 did not understand the difference between wage-labour (selling your labour) and commodity-exchange (selling the product of your labour) – a distinction that he recognised in 1867 – can be seen when he berated Proudhon for holding a position the Frenchman did not advocate:

¹⁰⁶ *Système II*: 522

¹⁰⁷ *Système II*: 525

¹⁰⁸ For example, David McNally *Against the Market: Political Economy, Market Socialism and the Marxist Critique* (London: Verso, 1993). For a critique of this position, see Justin Schwartz's review (*The American Political Science Review* 88: 4 [1994])

¹⁰⁹ *Capital I*: 264, 933

[...] the equality of conditions and fortunes [...] is established then, by means of freedom, between industrial corporations and groups of citizens; it is constituted finally, slowly and by infinite oscillations, between individuals. But equality must be the universal end, because each individual represents humanity, and thus man being equal to man, the product must be equal to the product between all.¹⁰⁴

Proudhon proposes the abolition of wage-labour by association, not ‘the determination of value by labour time’ as Marx described his ‘regenerating formula of the future’. Proudhon was aware that this ‘determination of value’ was *not* ‘the scientific expression of the economic relations of present-day society’ since capitalism is defined by the existence of wage-labour rather than commodity production (which pre-dates it), a point Marx finally recognised decades later. Proudhon also knew that it was Adam Smith who ‘clearly and precisely demonstrated’ this rather than Ricardo.¹⁰⁵

Like Ricardo, Proudhon considered himself to be working in the tradition of Adam Smith and this can be best seen in Proudhon’s conclusion where he quotes Smith repeatedly. His position can be drawn from this quote from *The Wealth of Nations* (Book 1, Chapter 8):

In that original state of things, which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him.

Had this state continued, the wages of labour would have augmented with all those improve-

¹⁰⁴ *Système* II: 370–1

¹⁰⁵ *MECW* 6: 138

Marx’s Poverty

Leading Trotskyist Ernest Mandel stated that *The Poverty of Philosophy* ‘is the prototype of that sort of implacable polemical writing which has often inspired the pens of Marx’s followers’.²⁰ This can only be suggested if Proudhon’s work has not been read for comparing what Marx asserted Proudhon argued with his actual words shows that Marx’s work is, to be polite, unreliable.

It would require a book to discuss all aspects of what is flawed about Marx’s polemic. Here we concentrate on just one, Marx’s attribution of labour-notes to Proudhon. This is done because, first, this part of his polemic is best known and has shaped the wider understanding of Proudhon’s ideas and, second, it expresses almost everything that is wrong in Marx’s reply. Showing how Marx misrepresented Proudhon’s ‘constituted value’ by equating it with the advocacy of labour-notes will aid in our understanding of both Proudhon’s ideas and why Marx’s polemic cannot be taken as a reliable work, so allowing a re-evaluation of both.

‘Constituted Value’

Marx quoted Proudhon that value ‘is the corner-stone of the economic structure’²¹ and then asserted that his ‘constituted’ value ‘is the corner-stone of the system of economic contradictions’ and that this ‘is all M. Proudhon has discovered in political economy’²².

Proudhon never claimed to have ‘discovered’ this notion – indeed, he is at pains to stress that it ‘is, as we might prove

²⁰ Ernest Mandel, *The formation of the economic thought of Karl Marx: 1843 to ‘Capital’* (London: N.L.B., 1971), 53

²¹ *Système* I: 32

²² *MECW* 6: 120

easily by innumerable quotations, a common idea running through the works on political economy'²³ and repeatedly notes that 'the honour of first mention belong[s] to Adam Smith, *Remuneration is in proportion not to USE VALUES which the producer brings to the market but TO THE LABOUR INCORPORATED in these use values*'.²⁴ Thus we can ignore Marx's attempts to accuse Proudhon of plagiarising David Ricardo for, like Proudhon, Ricardo explicitly noted the source of his ideas lay in Smith.

So what is 'constituted value'? Marx never actually quoted Proudhon on the matter but rather asserted that in Proudhon's 'eyes the cost of production constitutes *synthetic value* or *constituted value*'.²⁵ Marx continued:

Once utility is admitted, labour is the source of all value. The measure of labour is time. The relative value of products is determined by the labour time required for their production. Price is the monetary expression of the relative value of a product. Finally, the constituted value of a product is purely and simply the value which is constituted by the labour time incorporated in it.²⁶

It is correct to state that Proudhon, like Smith and Ricardo, argued that the natural price of a commodity was determined by the labour required to produce it. He indeed argued that it 'is labour, labour alone, that produces all the elements of wealth' and that this 'force which combines in certain proportions the elements of wealth' is one 'which Adam Smith has glorified so eloquently, and which his successors have misconceived (making privilege its equal) – this force is LABOUR'.²⁷

²³ *Système I*: 52

²⁴ *Système II*: 84

²⁵ *MECW* 6: 119

²⁶ *MECW* 6: 120

²⁷ *Système I*: 55

ies, 'any product is worth what it costs' and 'products are purchased with other products,' results the dogma of equality of conditions. The idea of socially constituted value, or proportionality products, serves to explain [...] how social value continuously eliminates fictitious values, in other words, how industry brings about the socialisation of capital and property¹⁰²

Accordingly, 'all appropriated wealth must become collective wealth, as the capital taken from society returns to society' for '[m]onopoly is inflated to world-wide proportions, but a monopoly which encompasses the world cannot remain exclusive; it must republicanise itself or be destroyed' – monopoly being defined as '[a]ny exclusive exploitation, any appropriation either of land, or of industrial capital, or a manufacturing process'. Thus we can see what mutualism – defined by Proudhon as 'the synthesis of the two ideas of property and of community' – is based on: social ownership of the means of production (i.e., free access so resulting in the abolition of wage-labour) with workers' control of production (i.e., the users of workplaces and land determining how to use them).¹⁰³ This would produce social equality (abolition of classes) and an approximate equality of income over time:

the salary of the worker is equal to his product,
consumption equal to production [...] The salary,
in the collective worker, is equal to the product

¹⁰² *Système I*: 87–8. Space precludes discussing this aspect of Proudhon's ideas beyond noting that his support for association and socialisation is often denied. (Gide and Rist, 305, 307) For a rebuttal of such denials, see my introduction to *Property is Theft!* and my critique of Derek Ryan Strong's article 'Proudhon and the Labour Theory of Property' (*Anarchist Studies* 22: 1, 52–65), 'Proudhon, Property and Possession', *Anarcho-Syndicalist Review* 66: 26–9

¹⁰³ *Système II*: 168, 528, 12, 528

which the contracting parties should stipulate no contribution of capital, but, while reserving to each the express right to compete with all, should confine themselves to a reciprocal guarantee of labour and salary [...] it is evident that all the tendencies of humanity, both in its politics and in its civil laws, are towards universalisation [...] towards a complete transformation of the idea of the company as determined by our statutes [...] articles of association [...] should regulate, no longer the contribution of the associates – since each associate, according to the economic theory, is supposed to possess absolutely nothing upon his entrance into the company – but the conditions of labour and exchange, and which should allow access to all who might present themselves [...] such articles of association would contain nothing that was not rational and scientific [...] In order that association may be real, he who participates in it must do so [...] as an active factor; he must have a deliberative voice in the council [...] everything regarding him, in short, should be regulated in accordance with equality. But these conditions are precisely those of the organisation of labour¹⁰⁰

This implies that ‘[w]hat one looks to preserve, and that in reality one pursues under the name of property, is no longer property; it is a new form of possession, without example in the past’.¹⁰¹ This would be based on the socialisation of property:

From this proposition [that ‘labour is the principle of proportionality of values’] and its corollar-

¹⁰⁰ *Système I*: 272–8. See Vincent’s excellent discussion (154–6)

¹⁰¹ *Système II*: 309

The issue is, as Marx suggested, ‘the conclusions M. Proudhon draws from value constituted (by labour time).’ He asserted that for while the ‘determination of value by labour time is, for Ricardo, the law of exchange value’ for Proudhon ‘it is the synthesis of use value and exchange value. Ricardo’s theory of values is the scientific interpretation of actual economic life’ while Proudhon’s ‘is the utopian interpretation of Ricardo’s theory.’ It is utopian because, Marx claimed, Proudhon thinks that ‘marketable value [should be] determined *a priori* by labour time’ resulting in ‘the sale of a given product at the price of its cost of production’²⁸. In short:

Suppose for a moment that there is no more competition and consequently no longer any means to ascertain the minimum of labour necessary for the production of a commodity; what will happen? It will suffice to spend six hours’ work on the production of an object, in order to have the right, according to M. Proudhon, to demand in exchange six times as much as the one who has taken only one hour to produce the same object.²⁹

Marx, then, wanted his reader to believe that Proudhon’s ‘constituted value’ is selling products at their labour time cost: ‘One hour of Peter’s labour exchanges for one hour of Paul’s labour. That is Mr. Bray’s fundamental axiom.’ An alert reader would query why, to refute Proudhon, Marx referenced a British socialist and the reason is simple – Proudhon did not advocate the position Marx assigned to him. His ‘constituted value’ is not labour-notes. To show this, we must *not* ‘reply in a few words to Mr. Bray who without us and in spite of us had managed to supplant M. Proudhon’ but instead look at Proudhon’s work.³⁰

²⁸ *MECW* 6: 124, 132

²⁹ *MECW* 6: 136

³⁰ *MECW* 6: 142

For Proudhon, ‘if labour cannot find its reward in its own product, very far from encouraging it, it should be abandoned as soon as possible’.³¹ Note that he says ‘product’ rather than time and recognises that goods need not be sold and labour not paid:

Ensure that for each of us well-being results exclusively from labour, so that the measure of work becomes the exact measure of well-being, and that the product of labour is like a second and incorruptible conscience, whose testimony punishes or rewards each man’s actions, according to merit or demerit.³²

The question arises, how did Proudhon think labour’s reward would be determined? Only by competition for it was ‘the most energetic instrument for the constitution of value’ and ensured a ‘reduction of general costs’ for an ‘exact knowledge of value [...] can be discovered only by competition, not at all by communistic institutions or by popular decree.’³³ He explicitly opposed the idea of pronouncing *a priori* prices (and pricing by labour-time cannot be anything else):

Suppose for a moment that all producers should sell at a fixed price: there would be some who, producing at less cost and in better quality, would get much, while others would get nothing. [...] Do you wish [...] to limit production strictly to the necessary amount? That would be a violation of liberty: for, in depriving me of the power of choice, you condemn me to pay the highest price; you

³¹ *Système I*: 199

³² *Système II*: 383

³³ *Système I*: 235, 189

ductivity.⁹⁷ In short, *the increase in wealth, the surplus, somehow disappears*. Marx is led to this farcical conclusion because at this stage he had no theory of exploitation and simply asserted capitalist exploitation is caused by the production of commodities rather than wage-labour.

Proudhon recognised how ‘the increase of misery in the present state of society is parallel and equal to the increase of wealth – which completely annuls the merits of political economy.’ However, he also recognised in a new society it would be the workers – those who create the products the capitalist class monopolise due to wage-labour – for ‘all labour must leave a surplus, all salaries [must] be equal to product’ and so he advocated ‘a solution based upon equality – in other words, the organisation of labour, which involves the negation of political economy and the end of property.’⁹⁸

Proudhon’s analysis of wage-labour and how exploitation occurred in production feeds directly into his arguments for workers’ associations and socialisation: ‘By virtue of the principle of collective force, workers are the equals and associates of their leaders.’⁹⁹ Rather than ‘organise’ labour based on *a priori* schemes (as per Jacobin socialist Louis Blanc or the utopian socialists), Proudhon argued that labour must evolve its own organisation based on the actual needs of society. All that could be done is to specify the basic principles and so the workplace of the future would be based on free access and self-management:

a commercial society [...] should lay down as a principle the right of any stranger to become a member upon his simple request, and to straight-way enjoy the rights and prerogatives of associates and even managers [...] articles of association in

⁹⁷ *MECW* 6: 159, 143, 159–60

⁹⁸ *Système I*: 31, 305, 217

⁹⁹ *Système I*: 377

not mention it explicitly and asserted that '[i]f there were anything to be condemned, it would surely be the system of M. Proudhon, who would reduce the worker [...] to the minimum wage'. He suggested that in the 70 years before 1840 Britain saw 'a surplus of 2,700 per cent productivity; that is, in 1840 it produced 27 times as much as in 1770.' While 'in the existing relations of production, the wealth of the bourgeoisie has grown' for the working class, 'it still remains a very debatable question whether their condition has improved as a result of the increase in so-called public wealth.' 'According to M. Proudhon,' Marx stated, 'the following question should be raised: why was not the English worker of 1840 27 times as rich as the one of 1770?'⁹⁶

Assuming that in 1846 net production was 100 units per worker then if productivity grew at 3.5% per year in the twenty-one years that passed between the appearance of Proudhon's work and the publication of *Capital*, production would have approximately doubled and after 150 years, it would have been approximately 175 times bigger. If (minimum) wages were 75 units per worker in 1846, according to Marx they would have been 37.5% of the total produced in 1867 and a mere 0.43% in 2016.

Marx proclaimed that 'to obtain this development of productive forces and this surplus labour, there had to be classes which profited and classes which decayed.' Yet who, in 'the system of M. Proudhon', gets the surplus which both he and Marx agree is appropriated by the capitalists and landlords under capitalism? Given that in Proudhon's system 'all the members of society are supposed to be immediate workers', Marx suggested that if workers get rid of their bosses and work for themselves then they will 'reduce' themselves 'to the minimum wage, in spite of the increase of wealth' produced by rising pro-

⁹⁶ MECW 6: 159–60

destroy competition, the sole guarantee of cheapness³⁴

Marx was aware of Proudhon's actual position for he took him to task for 'defending the eternal necessity of competition' when previously Marx had asserted that, in the Frenchman's system, 'there is no more competition'.³⁵ Marx's critique is not internally consistent and misrepresented Proudhon's clearly stated position:

Competition is necessary to the constitution of value, that is, to the very principle of distribution, and consequently to the advent of equality. As long as a product is supplied only by a single manufacturer, its real value remains a mystery, either through the producer's misrepresentation or through his neglect or inability to reduce the cost of production to its utmost limit.³⁶

Proudhon had already answered Marx's rhetorical question: 'Is your hour's labour worth mine? That is a question which is decided by competition.'³⁷ Proudhon was very clear that 'competition between workers' was 'a necessity' and every utopia 'ever imagined [...] cannot escape this law'.³⁸

Constituted value also explained how net product was 'the natural reward of the worker' for its 'legitimacy' lies in 'the processes previously in use: if the new device succeeds, there

³⁴ *Système I*: 40–1

³⁵ MECW 6: 191, 136

³⁶ *Système I*: 188

³⁷ MECW 6: 126

³⁸ *Système I*: 189. Space precludes discussing Proudhon's position on competition beyond noting he was against its laissez-faire capitalist form: 'Thus it is that, competition being one of the periods in the constitution of value, one of the elements of the social synthesis, it is true to say at the same time that it is indestructible in its principle, and that nevertheless in its present form it should be abolished, denied.' (*Système I*: 205)

will be a surplus of values, and consequently a profit, that is, net product; if the enterprise rests on a false basis, there will be a deficit in the gross product, and in the long run failure and bankruptcy.’ Thus the ‘proportion of values may continually vary without ceasing on that account to be subject to a law’ and so ‘value will still and always be none the less accurately determined, and it will still be labour alone which will fix the degree of its importance. Thus value varies, and the law of value is unchangeable: further, if value is susceptible of variation, it is because it is governed by a law whose principle is essentially inconstant – namely, labour measured by time’.³⁹ For Proudhon, constituted value was inherently dynamic: ‘The idea of value socially constituted [...] serves to explain [...] how, by a series of oscillations between supply and demand, the value of every product constantly seeks a level with cost and with the needs of consumption, and consequently tends to establish itself in a fixed and positive manner’.⁴⁰

Thus Proudhon had already answered Marx comment that if he ‘admits that the value of products is determined by labour time, he should equally admit that it is the fluctuating movement alone that in societies founded on individual exchanges make labour the measure of value.’⁴¹ Rather than proclaim that goods must be priced at their labour-time cost, his constituted value explains how market price is *regulated* by cost (ultimately labour) and this was ‘the centre around which useful and exchangeable value oscillate [...] the absolute, unchangeable law which regulates economic disturbances’ for ‘whoever says *oscillation* necessarily supposes a mean direction toward which value’s centre of gravity continually tends’.⁴² That Marxists later appropriated Proudhon’s term (‘the law of value’⁴³) to sum-

³⁹ *Système I*: 252–3, 51, 60

⁴⁰ *Système I*: 87

⁴¹ *MECW* 6: 135

⁴² *Système I*: 62, 23

⁴³ *Système I*: 60

ciety is to explain how it will be possible to make them *return* to it; to exhibit the genesis of the problems of production and distribution is to prepare the way for their solution.’⁹²

Proudhon understood that wage-labour results in the exploitation of labour and his solution was to reunite workers with the means of production they use. Marx in 1847 failed to understand Proudhon’s analysis just as he failed to mention Proudhon’s desire to end wage-labour by means of the ‘organisation of labour.’

Proudhon and ‘the organisation of labour’

For Proudhon, civilisation ‘aims to constitute the value of products and organise labour’.⁹³ Marx concentrated on just one of these, namely the constitution of value, distorting it by turning it into ‘labour-notes’ and ignored completely the organisation of labour in spite of it being a key aspect of Proudhon’s ideas. As Vincent explains ‘Proudhon suggested many times that competition and association [...] could be brought into equilibrium by properly organising labour [...] The question of the organisation of labour makes its appearance in just about every [...] chapter [of *System of Economic Contradictions*].’⁹⁴ ‘So for the law of labour, equal exchange, to be genuinely achieved,’ Proudhon stressed, ‘all the economic contradictions have to be resolved; which means [...] that outside of association liberty of commerce is still the tyranny of force.’⁹⁵

The ‘organisation of labour’ is important because it indicates what Proudhon thought should replace capitalism. Marx did

⁹² *Système I*: 92

⁹³ *Système II*: 204

⁹⁴ Vincent, 154–5.

⁹⁵ *Système II*: 42

The explanation is that, Marx unlike Proudhon, had no theory of exploitation occurring in production at this time. Commodity production, not wage-labour, is the issue for the 'relative value, measured by labour time, is inevitably the formula of the present enslavement of the worker' and '[i]ndividual exchange corresponds also to a definite mode of production which itself corresponds to class antagonism. There is thus no individual exchange without the antagonism of classes' and 'social relations based on class antagonism' are 'not relations between individual and individual, but between worker and capitalist, between farmer and landlord, etc.' Marx equated capitalism with 'transforming all men into immediate workers exchanging equal amounts of labour' (or '[a]ll men [becoming] wage workers getting equal pay for an equal time of work'⁸⁸) when, as he later became aware, there is a fundamental difference between 'these two diametrically opposed economic systems'.⁸⁹

Marx, unlike Proudhon, presented no analysis of the causes of exploitation nor linked it to wage-labour and instead suggested it happens because commodities are sold. 'Neither *The Poverty of Philosophy* nor the *Communist Manifesto*, nor *Wage Labour and Capital*', Ernest Mandel admits, 'contain the idea of surplus-value.'⁹⁰ As Stanley Moore suggests, this is because, in 1847 Marx presented the 'thesis that ending exploitation involves ending exchange' for 'in the capitalist mode of production exploitation takes place through exchange.'⁹¹ In contrast, explaining how workers are exploited by capital is a key theme of Proudhon's book for 'to unfold the system of economic contradictions is to lay the foundations of universal association; to show how the products of collective labour *come out* of so-

marise Adam Smith's analysis of the oscillation of a commodity's market price around its cost of production (labour cost) is a bitter irony.⁴⁴

The notion that Proudhon wished to introduce labour-notes marked by the time of production is an invention of Marx. Proudhon does not mention pricing in labour-time but repeatedly uses the expression '*[p]roducts are bought only with products*' and notes that '[i]n economic science, we have said after Adam Smith, the point of view from which all values are compared is labour; as for the unit of measure, that adopted in France is the FRANC.'⁴⁵ He did not, no more than Smith or Ricardo, argue that this be changed to something else:

The declaimers spoke about money as the fabulist spoke about language: they assigned all the goods and all the evils of society to it simultaneously. [...] If this praise and this blame were true, the invention of money, most astonishing according to M. de Sismondi, happiest in my opinion, made by the economic genius, would present a contradiction in the analysis; it would have, consequently, to be rejected and replaced by a higher, more moral and truer design. But it is not so: precious metals, cash and bank paper are not by themselves causes of good nor of evil, the true cause is in the uncertainty of value, whose constitution appears to us symbolically in currency as realisation of order and of well-being, and whose irregular oscillation, in the other products, is the principle of all plunder and misery.⁴⁶

⁸⁸ MECW 6: 125, 144, 138, 159, 124.

⁸⁹ *Capital* I: 931

⁹⁰ Mandel, 81

⁹¹ Stanley Moore, *Marx versus Markets* (University Park, Pa: Pennsylvania State University Press, 1993), 31

⁴⁴ In his 1853 work *Philosophie du Progrès*, Proudhon usefully summarised both the law of value and its relationship to actual economic transitions as well as his ideas on economic reform (*Oeuvres Complètes de P-J Proudhon* [Bruxelles: Lacroix, 1868] 20: 91–92, 48–56)

⁴⁵ *Système* I: 246, 67–8

⁴⁶ *Système* II: 382

In short, ‘what we call the value of any special product is a formula which expresses, in terms of money, the proportion of this product to the general wealth. – Utility is the basis of value; labour fixes the relation; the price is the expression which, barring the fluctuations that we shall have to consider, indicates this relation.’ Market value, then, ‘reaches its positive determination by a series of oscillations between *supply* and *demand*.’⁴⁷

This explains why Proudhon’s work does not discuss how supply is determined, something reflected in Marx’s mockery:

Everyone knows that when supply and demand are evenly balanced, the relative value of any product is accurately determined by the quantity of labour embodied in it [...] Proudhon inverts the order of things. Begin, he says, by measuring the relative value of a product by the quantity of labour embodied in it, and supply and demand will infallibly balance one another. [...] Instead of saying like everyone else: when the weather is fine, a lot of people are to be seen going out for a walk. M. Proudhon makes his people go out for a walk in order to be able to ensure them fine weather.⁴⁸

Yet Proudhon nowhere proclaimed that once value is ‘constituted’ producers will supply the precise amount demanded by consumers. Indeed, he did not discuss supply at all for he was well aware how supply and price were actually formed within a market economy – by means of contracts:

every proposition of sale or purchase is at bottom only a comparison between two values – that is, a determination, more or less accurate if you will,

⁴⁷ *Système* I: 62, 90

⁴⁸ *MECW* 6: 131

of labour can buy, are not identical.’ Why not? ‘*Because* the worker’s product or an equivalent of this product is not = to the worker’s pay.’ i.e. the identity does not exist, *because* a difference exists. ‘Therefore’ (because this is not the case) ‘it is not the value of labour which is the measure of value, but the quantity of labour bestowed on the commodity.’ [...] Value of labour is not identical with wages of labour. *Because* they are different. *Therefore* they are not identical. This is a strange logic. There is basically no reason for this other than that it is *not* so in practice. But it ought to be so, according to the theory. For the exchange of values [is] determined by the labour time realised in them.⁸⁶

Proudhon’s identification of the two measures was not a sign of his economic illiteracy, as Marx smugly proclaimed in 1847 but rather showed that on this issue – like so many others – the Frenchman is more advanced in his understanding of capitalism than the German. Thus Marx moved from Ricardo exposure of Smith’s ‘error’ to admitting:

It is Adam Smith’s great merit that [...] where he passes from simple commodity exchange and its law of value to exchange between materialised and living labour, to exchange between capital and wage-labour [...] he feels some flaw has emerged. He senses that somehow [...] in the actual result the law is suspended: more labour is exchanged for less labour (from the labourer’s standpoint)⁸⁷

⁸⁶ *The Grundrisse*, 561

⁸⁷ *Theories of Surplus Value* I: 87

command, i.e., buy, he is not in fact saying by this that commodities themselves no longer exchange in proportion to the labour-time they contain; but that the *increase of wealth*, the increase of the value contained in the commodity, and the extent of this increase, depends upon the greater or less quantity of living labour which the materialised labour sets in motion. And put in this way it is correct. Smith, however, remains unclear on this point.⁸⁴

Smith's 'error' was to recognise that commodity exchange between workers is different from wage-labour and produces different results. Ricardo failed to understand the issue and, in 1847, so did Marx, as Marx latter came to comprehend:

But Ricardo has by no means thereby solved the problem which is the real cause of Adam Smith's contradiction. *Value of labour* and *quantity of labour* remain 'equivalent expressions', so long as it is a question of *materialised labour*. They cease to be equivalents as soon as *materialised labour* is exchanged for *living labour*. [...] Ricardo simply answers that this is how matters are in capitalist production. Not only does he fail to solve the problem; he does not even realise its existence in Adam Smith's work.⁸⁵

Ricardo simply made an assertion. This appeal to authority on Proudhon's 'fundamental error' which in 1847 Marx thought is so important falls, as he later explained:

[Ricardo states:] 'The *value* of labour, and the quantity of commodities which a specific quantity

⁸⁴ *Theories of Surplus Value* (London: Lawrence & Wishart, 1969) I: 77

⁸⁵ *Theories of Surplus Value* II: 396–7

but nevertheless effective. [...] It will not be denied that, if two manufacturers can supply one another by an account current, and at a settled price, with quantities of their respective products, ten, a hundred, a thousand manufacturers can do the same. Now, that would be a solution of the problem of the measure of value. The price of everything would be debated upon, I allow, because debate is still our only method of fixing prices⁴⁹

In other words, price and quantity would be negotiated between producers and consumers and in this manner – aided by competition – prices would eventually fall to their cost price (labour plus materials) and the amount demanded supplied. This did not imply that value would be fixed *a priori* for 'value is determined in society by a series of oscillations between supply and demand'. Indeed, his criticism of the advocates of community was rooted in its denial of the liberty of the producer to determine how much they would produce, for whom, when and at what price: 'Is the producer to be free or not in his work?'⁵⁰

Proudhon 'did not propose to eliminate the private enterprise system. Market competition was to continue to regulate the prices of commodities.'⁵¹ As two French economists noted over a century ago:

Proudhon's idea has often been contrasted with Robert Owen's labour notes, and with the scheme prepared by Mr Bray in 1839, in a work entitled *Labour's Wrongs and Labour's Remedy* [...] Proudhon's circulating notes have nothing in common

⁴⁹ *Système* I: 48

⁵⁰ *Système* II: 209, 369

⁵¹ Dudley Dillard, 'Keynes and Proudhon', *The Journal of Economic History* 2: 1 (May, 1942), 65.

with the labour notes described by these writers. The circulating notes represent commercial goods produced for the purpose of private exchange. Prices are freely fixed by buyer and seller, and they bear no relation to the labour time, as is the case with the labour notes. The final result, doubtless, was expected to be the same. Proudhon hoped that in this way the price of goods, now that it was no longer burdened with interest on capital, would equal cost of production. This result was to be obtained indirectly.⁵²

As can be seen, Proudhon did not advocate labour-notes. Like Smith and Ricardo, he recognised the difference between the natural price of a good and its market price and argued that competition was the means by which the latter approximated the former and supply approximated to demand. He did not advocate pricing goods in anything other than Francs and rather than seeking the exchange the *time* of labour he wanted the *product* of labour to be exchanged: '*Products are bought only with products*'.⁵³

Marx at one point acknowledged the reality of Proudhon's position by noting that 'he can think of nothing better than to give as the equivalent of a certain quantity of labour the sum total of the products it has created, which is as good as supposing that the whole of society consists merely of workers who receive their own produce as wages'. Marx then invented the notion that Proudhon 'takes for granted the equivalence of the working days of different workers' in order to 'arrive at equal payment for the workers' and so 'takes the equality of

⁵² Charles Gide and Charles Rist, *A History of Economic Doctrines from the time of the physiocrats to the present day* (London: Harrap, 1948) 322–3

⁵³ *Système* II: 84

'can buy the value it contains'.⁸² Significantly, Marx failed to provide a page reference and this is for a very good reason. Proudhon was taunting the bourgeois economists: 'Why do not the economists, if they believe, as they appear to, that the labour of each should leave a surplus, use all their influence in spreading this truth, so simple and so luminous: Each man's labour can buy only the value which it contains, and this value is proportional to the services of all other workers?'⁸³

What of the 'error' Marx claimed that Ricardo exposed in Smith? Smith *did* identify value embodied and commanded – which is part of the reason Smith concluded goods did not exchange at their labour-values under capitalism. Yet, as Marx later argued, Smith was superior to Ricardo precisely *because* he recognised the problem:

Here Adam Smith is examining only commodity exchange in general: the nature of exchange-value, of the division of labour and of money. The parties to the exchange still confront each other only as owners of commodities. They buy the labour of others in the form of a commodity, just as their own labour appears in the form of a commodity. The quantity of social labour which they command is therefore equal to the quantity of labour contained in the commodity with which they themselves make the purchase. But when in the following chapters he comes to the exchange between materialised labour and living labour, between capitalist and worker, and then *stresses* that the value of the commodity is now no longer determined by the quantity of labour it itself contains, but by the quantity – which is different from this – of living labour of others which it can

⁸² *MECW* 6: 128

⁸³ *Système* I: 81

print company to support his family and he was an employee when he was writing *System of Economic Contradictions*. So as well as analysing wage-labour, showing how it resulted in the oppression and exploitation of workers and how they could end it, Proudhon was – unlike Marx – actually experiencing its grim reality.

Marx: From ‘error’ to ‘great merit’

Marx later came to many of the same conclusions he pilloried Proudhon for in 1847. One was the theory of exploitation and another was the measure of value:

All the ‘equalitarian’ consequences which M. Proudhon deduces from Ricardo’s doctrine are based on a fundamental error. He confounds the value of commodities measured by the quantity of labour embodied in them with the value of commodities measured by ‘the value of labour.’ [...] Adam Smith takes as the measure of value, now the time of labour needed for the production of a commodity, now the value of labour. Ricardo exposes this error by showing clearly the disparity of these two ways of measuring. M. Proudhon goes one better than Adam Smith in error by identifying the two things which the latter had merely put in juxtaposition.⁸¹

He continued: ‘[i]t is beyond doubt that M. Proudhon confuses the two measures, measure by the labour time needed for the production of a commodity and measure by the value of the labour’ and quotes him: ‘Any man’s labour,’ [Proudhon] says,

⁸¹ *MECW* 6: 127–8

wages as an already established fact, in order to go off on the search for the relative value of commodities’.⁵⁴

This ignores that Proudhon recognised that work ‘differs in quantity and quality with the producer’ and so if ‘all salaries [must] be equal to product’ then income will differ between workers. So if in an ethical sense Proudhon thought that a day’s labour of one worker was equal to another he did not think that this was literally the case in terms of income. A worker’s salary would equal whatever their product would fetch on the market as ‘work is the source of all wealth’. There would be no equality of income but rather an ‘equality of distribution’ based on ‘equality according to the measure of work’.⁵⁵

So, for Proudhon, what would happen if a worker tried to sell a commodity for 6 Francs while his competitor sells it for 1 Franc? He would lack buyers and so would seek to reduce his costs in order to be competitive or abandon his trade for one more favourable. His competitor would have an income equal to the amount of goods he sold at 1 Franc a piece minus costs.

‘Constituted Value’ and money

Proudhon did *not* mean by ‘constituted value’ what Marx asserted he did. This is also shown by Proudhon’s views on money.

Proudhon started by stating that gold and silver ‘were the first commodities to have their value constituted’.⁵⁶ Marx quoted this passage yet he made no attempt to reconcile it with his earlier proclamation that Proudhon thought ‘the constituted value of a product is purely and simply the value

⁵⁴ *MECW* 6: 129

⁵⁵ *Système* I: 55, 305, 85

⁵⁶ *Système* I: 69

which is constituted by the labour time incorporated in it'.⁵⁷ If, as Marx suggests, Proudhon's 'constituted value' were labour-notes then how does he square that with Proudhon's statement that money was the first value to be constituted? He did not because he could not – for to do so would be to suggest that Proudhon thought gold and silver were currently priced in terms of hours worked to produce them, an obvious nonsense.

Rather than a system of labour-time pricing, Proudhon's 'constitution of value' is simply the recognition that because all goods are 'a representative of labour' this meant that they 'can be exchanged for some other'. In other words, that every product can become exchangeable like money for 'the monetisation of gold and silver' was 'the consecration of the law of proportionality, the first act in the constitution of values'. The aim was to ensure that 'all products of labour must be submitted to a proportional measure which makes all of them equally exchangeable' for up to now 'this attribute of absolute exchangeability' was given just 'to a special product [i.e., gold and silver], which shall become the type and model of all others'.⁵⁸

The discussion of money in chapter two of *System of Economic Contradiction* is short, too short to be considered a definitive account and so has to be supplemented with the chapter on credit in the second volume. There Proudhon had noted that in chapter two he had 'demonstrated how, if the value of all products were once determined and rendered highly exchangeable' then all goods would become 'acceptable, in a word, like money, in all payments'. Therefore what 'we had to repress in the precious metals is not the use, but the privilege' and so the 'means of destroying this formidable force [of gold and silver] does not lie in the destruction of the medium' but 'in general-

mate salary [i.e., his product], even the exercise of the industry which supported him'.⁷⁶ In short: 'PROPERTY IS THEFT'.⁷⁷

It does not take long to show the similarities to Marx's later theory of surplus-value. In *Capital* he noted that '[h]uman labour power in its fluid state, or human labour, creates value but is not in itself value. It becomes value in its coagulated state, in objective form' and that the 'two characteristic phenomena' of capitalism are that the worker 'works under the control of the capitalist to whom his labour belongs' and 'the product is the property of the capitalist and not that of the worker, its immediate producer'. The capitalist buys the labour-power of 100 men and 'can set the 100 men to work. He pays them the value of 100 independent labour-powers, but does not pay them for the combined labour power of the 100.' Thus 'property turns out to be the right, on the part of the capitalist, to appropriate the unpaid labour of others, or its product, and the impossibility, on the part of the worker, of appropriating his own product'.⁷⁸ The echoes of Proudhon's analysis are obvious.

So much, then, for the sheer audacity of Marx's comment that '[i]n labour as a commodity, which is a grim reality, [Proudhon] sees nothing but a grammatical ellipsis'.⁷⁹ To make such a claim ignores two things. First, the substantial critique of wage-labour contained in Proudhon's book which argues that under capitalism 'mechanical progress [...] would have no other effect than to [...] make the chains of serfdom heavier [...] and deepen the abyss which separates the class that commands and enjoys from the class that obeys and suffers'.⁸⁰ Second, unlike the bourgeois ex-student Marx, Proudhon had to leave school and become a wage-worker in a

⁵⁷ *MECW* 6: 144, 120

⁵⁸ *Système* I: 68–73

⁷⁶ *Système* I: 258–9, 366

⁷⁷ *Système* II: 234

⁷⁸ *Capital* I: 142, 291–2, 451, 730

⁷⁹ *MECW* 6: 129

⁸⁰ *Système*, I: 170

Exploitation occurred in production as the employer appropriated the collective force and surplus of labour of the wage-workers embodied within the products they create for them:

I have proven, in dealing with value, that every labour must leave a surplus; so that in supposing the consumption of the labourer to be always the same, his labour should create, on top of his subsistence, a capital always greater. Under the regime of property, the surplus of labour, essentially collective, passes entirely [...] to the proprietor: now, between that disguised appropriation and the fraudulent usurpation of a communal good, where is the difference?

The consequence of that usurpation is that the worker, whose share of the collective product is constantly confiscated by the entrepreneur, is always on his uppers, while the capitalist is always in profit [...] political economy, that upholds and advocates that regime, is the theory of theft.⁷⁴

So in 'this system of interlocked monopolies' the worker 'is no longer anything more than a serf' to whom 'the holder of the instruments of production seems to say [...]: You will work as long as your labour leaves me a surplus'.⁷⁵ This explains 'the reason why wealth and poverty are correlative, inseparable, not only in idea, but in fact; this is the reason why they exist concurrently [...] the wage-worker [...] finds that, though promised [...] one hundred, he has really been given but seventy-five.' This results in a system that ensures that 'the subordinated worker should lose, together with his legiti-

⁷⁴ *Système II*: 315

⁷⁵ *Système II*: 54

ising its principle' by ensuring that 'all the products of labour had the same exchange value as money' as money was 'the only value that bears the stamp of society, the only merchandise standard that is current in commerce'. This would lead to 'the socialisation of all values, in the continuous creation of new monetary figures'. A bank-note would be 'the equivalent to the holder having actual possession of the sum paid' and 'the price stipulated and accepted for sold goods can become currency in the form of a bill of exchange'.⁵⁹

Proudhon also made similar remarks in his chapter on international trade, arguing for 'all values' to be 'determined and constituted like money' and for 'each good' to be 'immediately and without loss, accepted in exchange for another'. This was because '[m]oney, as we said in chapter II, is a variable value, but CONSTITUTED' and so

these goods remain the only one acceptable in payment, the suzerain of all the others, one whose value, by a temporary but real privilege [...], is socially and regularly determined in its oscillations [...] Until, by a radical reform in the industrial organisation, all produced values have been constituted and determined like currency [...] money preserves its royalty, and it is of it alone which one can say that to accumulate wealth is to accumulate power.

In short: 'ensure that all goods are equivalent to money'.⁶⁰

Marx made no mention of Proudhon's later discussions on money in spite of their usefulness in understanding his views on constituted value. This is perhaps unsurprising as it shows that the 'constitution' of value meant making all goods potentially (backing for) money rather than, as Marx proclaimed,

⁵⁹ *Système II*: 109–111, 141

⁶⁰ *Système II*: 27, 32, 50–1

pricing them according to time. Indeed, Proudhon is so clear that Marx cannot help but admit as much in passing: 'To say that, of all commodities, gold and silver were the first to have their value constituted, is to say, after all that has gone before, that gold and silver were the first to attain the status of money. This is M. Proudhon's great revelation, this is the truth that none had discovered before him.'⁶¹

This did not stop Marx ignoring that this was obviously the case by concluding that 'for M. Proudhon [gold and silver are] the example *par excellence* of the application of value constituted... by labour time'.⁶² Needless to say, he does not quote Proudhon stating that gold and silver were currently priced... in the hours and minutes they had taken to produce. For Proudhon, money should be backed by all commodities rather than just one (gold or silver) and Marx's notion of labour-notes is unfounded. When Proudhon actually tried to put his ideas into practice in 1849 with his 'Bank of the People' it was indeed not a matter of labour notes but rather bills of exchange. Unsurprisingly, Proudhon's actual position has been recognised by other commentators.⁶³

'Constituted Value' and 'surplus of labour'

Proudhon thought that 'constituted value' proved that 'all labour must leave a surplus' which, in turn, allows us to

⁶¹ MECW 6: 146

⁶² MECW 6: 151. Ironically, Marx in part bases his case on Ricardo but he later dismisses 'Ricardo's erroneous theory of money'. (*Theories of Surplus Value* [London: Lawrence & Wishart, 1969] II: 164)

⁶³ Dillard, 65; Jack Hayward, *After the French Revolution: Six Critics of Democracy and Nationalism* (Hemel Hempstead: Harvester Wheatsheaf, 1991), 189; Herbert L. Osgood, 'Scientific Anarchism', *Political Science Quarterly*, 4: 1 (March, 1889), 14–6; Charles A Dana, *Proudhon and His 'Bank Of The People'* (Chicago: Charles H Kerr, 1984), 43–5

have to do does not concern you at all: you do not control it, you do not answer for it. Every observation is forbidden to you; there is no profit for you to hope for except from your wage, no risk to run, no blame to fear.⁷¹

Fifth, the employer keeps the product of the workers' labour:

Here, then, is the proposition which the speculator makes to those who he wishes to collaborate with: I guarantee to you [the worker] in perpetuity the distribution [*placement*] of your products, if you will accept me as purchaser or intermediary [...] the entrepreneur will have more opportunity for selling, since, producing cheaply, he can lower his price; finally his profits will be larger because of the mass of the investments.⁷²

Sixth, this allows capitalists to appropriate the difference between what workers create and what they receive in wages. The 'co-operation of numerous workers' produces 'an effect of collective power' and so 'the question is to ascertain whether the amount of individual wages paid by the entrepreneur is equivalent to th[is] collective effect'. The answer is no: it goes to the boss 'gratuitously' for he 'has paid nothing for that immense power which results from the union of workers' but rather 'has paid as many times one day's wage as he has employed workers – which is not at all the same thing.' He 'allots to himself the benefit of the collective power' which 'is usurpation on his part' and so the axiom '[e]very product is worth what it costs' is 'violated'.⁷³

⁷¹ *Système* II: 295

⁷² *Système* I: 162

⁷³ *Système* I: 266. Proudhon here directly references his analysis of collective force in *What is Property? (Property is Theft!)*, 114–7)

[...] such are, in economic language, the various names of [...] Power, Authority, Sovereignty [...] the workshop with its hierarchical organisation, and machinery [...] serv[es] exclusively the interests of the least numerous, the least industrious, and the wealthiest class'⁶⁹

Fourth, the workers labour under the control of their bosses and so 'they have executed with their hands what the thought of the employers had conceived'.⁷⁰ Property produces despotism in production:

Thus, property, which should make us free, makes us prisoners. What am I saying? It degrades us, by making us servants and tyrants to one another.

Do you know what it is to be a wage-worker? To work under a master, watchful of his prejudices even more than of his orders; whose dignity consists above all in demanding, *sic volo, sic jubeo* [Thus I wish. Thus I command], and never explaining [...] Not to have any thought of your own, to study without ceasing the thought of others, to know no stimulus except your daily bread, and the fear of losing your job!

The wage-worker is a man to whom the proprietor who hires his services gives this speech: What you

⁶⁹ *Système I*: 161–6. It must be stressed, contrary to the impression given by Marx, that Proudhon was *not* opposed to large-scale production: 'M. de Sismondi, like all men of patriarchal ideas, would like the division of labour, with machinery and manufactures, to be abandoned, and each family to return to the system of primitive indivision – that is, to *each one by himself, each one for himself*, in the most literal meaning of the words. That would be to retrograde; it is impossible.' (*Système I*: 167)

⁷⁰ *Système I*: 267

understand his theory of exploitation. The short discussion of 'surplus of labour' in chapter two of Proudhon's book does not aim, as Marx asserted, to show that the cost of individual products falls by increased productivity. Rather it aims to show that if labour alone produced wealth then 'labour must leave a surplus for each producer' and he does so with the use of an abstraction, namely the personification of society into Prometheus. This is used to abstract from individual exchanges and so indicates that the *social* (overall) surplus is not the product of some gaining at the expense of others. As he put it elsewhere: 'in society the profits of speculation are equal to the losses'.⁶⁴

Proudhon, however, made a minor arithmetical mistake in the process of preparing his argument which Marx milked for more than it is worth. We will skip this to focus, as Marx should have, on the fundamental point Proudhon was making – namely that labour produces a surplus product above and beyond the amount needed to keep the worker and their family alive. This does not mean, of course, that some do not gain at the expense of others – quite the reverse as Proudhon explained how the few exploit the many – but this is a question of the *distribution* (monopolisation) of the surplus produced by labour.

Prometheus is utilised by Proudhon not to ignore the social relations of capitalism but to expose them for after invoking it he notes that while, in theory, 'by the progress of collective industry, each individual day's labour yields a greater and greater product, and while, by necessary consequence, the worker, receiving the same salary, must grow ever richer, there exist in society classes which *thrive* and classes which *perish*'.⁶⁵ However, he did not explain in chapter two how this happens. Instead, his theory is constructed from an analysis of

⁶⁴ *Système I*: 77–9, 50

⁶⁵ *Système I*: 80

the contradictions of specific elements of capitalism (machinery, monopoly, property, etc.). As it is built incrementally as his model and critique of capitalism is created, it is necessary to draw together its elements in order to fuller understand it and to how similar Marx's later theory was.

First, labour did not have a value but what it created did and so labour produces value only as *active* labour engaged in the production process:

Labour is said to have value, not as merchandise itself, but in view of the values supposed to be contained in it potentially. The value of labour is a figurative expression, an anticipation of effect from cause [...] it becomes a reality through its product. When, therefore, we say: This man's labour is worth five francs per day, it is as if we should say: The daily product of this man's labour is worth five francs⁶⁶

Second, capitalism is marked by private property in the means of production and this creates an institutional inequality between the working class and the owning class (landlords and capitalists). Any equality between the two 'was bound to disappear through the advantageous position of the master and the dependence of the wage-workers. In vain does the law assure to each the right of enterprise, as well as the faculty to labour alone and sell one's products directly' for 'the object of the workshop [is] to annihilate isolated labour. [...] When

⁶⁶ *Système I*: 61. 'Marx made some disparaging remarks about this passage [...] even though Proudhon here anticipated an idea that Marx was to develop as one of the key elements in the concept of *labour power*, viz. that *as a commodity*, labour produces nothing and it exists independently of and prior to the exercise of its potential to produce value as *active labour*.' (Alan Oakley, *Marx's Critique of Political Economy: intellectual sources and evolution, 1844 to 1860* [London: Routledge & Kegan Paul, 1984] 1:118)

an establishment has had the time to grow, enlarge its foundations, ballast itself with capital, and assure itself customers, what can the worker who has only his arms do against a power so superior?' Those without property, 'within whose reach competition never comes, are hirelings of the competitors' as 'competition cannot by itself become the common condition' because '[b]y the formation of the company [...] competition is an exceptional matter, a privilege'.⁶⁷

Third, this inequality of conditions means that workers have no access to the means of production and so they 'have sold their arms and parted with their liberty' to those who own them.⁶⁸ Capitalism's defining feature was not markets or exchange (which predate it) but rather labour as a commodity:

The period through which we are now passing — that of machinery — is distinguished by a special characteristic: WAGE-LABOUR.

Wage-labour stems from the use of machinery — that is, [...] from the economic fiction by which capital becomes an agent of production. [...] The first, the simplest, the most powerful of machines is the *workshop*. [...] The machine, or the workshop, after having degraded the worker by giving him a master, completes his degeneracy by reducing him from the rank of artisan to that of common labourer. [...] Machinery plays the leading role in industry, man is secondary: all the genius displayed by labour tends to the degradation of the proletariat. [...]

With machinery and the workshop, divine right — that is, the principle of authority — makes its entrance into political economy. Capital, Mastership

⁶⁷ *Système I*: 163–4, 213

⁶⁸ *Système I*: 267