AN EPOCH-MAKING BOOK

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[The publication of a work of high distinction in the realm of pure economic theory is a sufficiently rare event in Britain. We are therefore glad to be able to make available for the benefit of our readers at home and abroad this review by the leading British Marxist economist of this outstanding book by Piero Sraffa.—Ed.,* L.M.]

IT is a common misunderstanding on the part of so-called 'vulgar Marxism' as well as of critics of Marx that what is important for Marx's theory of value is that actual exchange-values of commodities, or prices, should *equal* values (in the sense of embodied socially necessary labour); whereas in truth what is important to that theory is that exchange-values or prices should be *governed by* values. In other words, conditions of exchange are shown as governed by *conditions of production.* As is well known by any reader of *Capital* who has got as far as Vol. 3, commodities do not exchange (in Marx's theory) at their values but at their *'prices of production'*—save in the quite special case where the composition of capital is uniform in all lines of production (the abstract simplifying assumption of Volume 1).

This has given the so-called 'Transformation Problem' (*i.e.*, transformation of 'values' into 'prices of production') its special importance in post-Marx discussion. It has been pushed into the front of attention for two reasons: (1) because the central criticism of Marx by his foremost critic Böhm-Bawerk was that any such derivation of prices from values (or 'transformation' of one into the other) was logically impossible—this was the 'Great Contradiction' on which he claimed that Marx's system foundered; (2) because Marx never lived to complete his theory of how values were transformed into prices (his own arithmetical examples being incomplete—a fact of which he was quite aware—since only the *products* and *not the means of production* were there translated into price-terms).

For some considerable time it has been known† that this transformation *is* possible (*i.e.*, that prices can be shown to be determined by values) on the basis of production divided into 3 departments or sectors (the third department consisting of luxury-consumer-goods consumed exclusively by capitalists out of surplus-value). Many

**Production of Commodities by Means of Commodities : Prelude to a Critique of Economic Theory*, by Piero Sraffa. Cambridge University Press. 12s. 6d. 100 pp.

†Since this was demonstrated in the early part of the century by an economist called Bortkievicz in Germany—and some years before him, a Russian writer called Dmitriev.

continued to suppose however that prices of individual commodities *within* each sector could not be determined by the theory—could not be determined, *i.e.*, without bringing in conditions of demand (and thereby opening the door to modern utility-theory-and-all-that). It is only quite recently that it has been demonstrated that the transformation-problem can be solved *for any number of commodities* (and not only for the simplified case of three sectors).

Such a demonstration forms a central part of this work (although, as one should perhaps explain, this is not said in so many words, nor do we meet any explicit reference until we come to the appendix of historical references at the end). Another problem, which this book tackles and which is central to any theory of value and of capital, is this: Commodities are always the product of labour *together with constant capital;* and this constant capital is itself the product of labour *plus* constant capital. As Marx himself pointed out, there is *always* an unresolved residue (*e.g.*, in his criticism of Adam Smith in Vol. 2). How then can the value of constant capital itself be determined in terms of the theory of value? (Special difficulties are involved in the case of the fixed capital element in constant capital: *e.g.*, a machine is not used up in a single act of production; hence only *part* of its own value is transferred to each commodity produced—*how* large or small a part?).

This work starts from the case of 'an extremely simple society which produces just enough to maintain itself'. The commodities produced are also used in production (*i.e.*, they form part of 'productive-consumption'). Labour-power is itself, of course, one of these commodities: i.e. labour-power together with the 'subsistence' that keeps renewing the labour-power used up in work. It is then shown how the necessary exchange-values that must prevail in such a society are uniquely determined by the methods of production. This is shown to be so whether the commodities are two in number (wheat and iron) or *any* number.

This simple case is then complicated in successive stages, first of all by introducing a society which, instead of only maintaining itself, produces a surplus. The same is shown to be true here also: that necessary exchange values are uniquely determined by conditions of production. There is now this difference, however: with a surplus comes a special class of 'luxury products' which are not means of production ('are not used, whether as instruments of production or as articles of subsistence, in the production of others'). 'These products have no part in the determination of the system. Their role is purely passive.' In other words, neither their own conditions of production, nor their destination and use (the 'demand for them'). can affect the values of any other products in the system. This difference between products that do and products that do not serve as means of production the author terms that between 'basics' and 'non-basics' ('the price of a non-basic product depends on the prices of its own means of production, but these do not depend on it').

This surplus may, in a class society, all go as profits (wages consisting of no more than minimum necessary subsistence). Under different social conditions it is conceivable that it could all go as wages, or be divided in various proportions between wages and profits. The author adopts the abstract hypothesis that the surplus is divisible between wages and profits in varying proportions all the way from wages = 0 to wages = 1; and proceeds to show how the prices of individual commodities are affected by this variation. (This is simply a device essentially for showing how prices of individual commodities change as the rate of surplus value changes.) In the case where wages = 1 (whole surplus goes to wages) 'the relative values of commodities are in proportion to . . . the quantity of labour which directly and indirectly has gone to produce them'. However, as wages are reduced from this position and profit emerges, prices begin to diverge from this 'simple rule'. But *they do so in a calculable way.* It is shown that 'the key to the movement of relative prices consequent upon a change in the wage lies in *the inequality of the proportions in which labour and means of production are employed* in the various industries'.

At a later stage it is shown how and in what circumstances the different means of production used can be represented as 'a series of quantities of labour, each with its appropriate "date".' This is called 'Reduction to dated quantities of labour'. The connection between this 'reduction' and the way in which prices (Marx's 'prices of production') of individual commodities change as the rate of profit changes is also demonstrated. In the course of doing so it is incidentally shown that the notion of a 'period of production' which the so-called Austrian School of economists had used as a basis for a Theory of Interest is logically untenable.

A difficulty which had a central place in Ricardo's thought (and is a key to some crucial changes in successive editions of his 'Principles') was that the way that prices changed (and likewise the rate of profit) when wages changed (or the rate of surplus value) varied according to the *standard* in terms of which prices were measured (*i.e.*, according to the conditions of production of the commodity selected as standard of value, or as the *money-commodity*). To remove this difficulty, Ricardo tried to define an 'invariable standard of value' which should be an embodiment and measure of 'absolute value'. He never quite succeeded, and ended by doubting whether it was at all possible. Economists ever since have supposed that in seeking it he was following a will o' the wisp.

Marx avoided the difficulty (without, however, solving it) by supposing some kind of 'average' conditions for his standard or money-commodity ('sum of prices=sum of values'). It is a unique contribution of this work that for the first time it shows that such an invariable standard *can* be defined and *how* it is definable. This is called the Standard Commodity (or Standard Composite Commodity). Its characteristic is that 'various commodities are produced in the same proportions as they enter the aggregate means of production'; and no changes in the relation of wages and profits (rate of surplus value) can change the ratio of net product or surplus to means of production. Consequently such a Commodity (or Composite Commodity) is itself invariant to such changes and can be taken as an absolute standard for measuring changes in other prices.

Part II proceeds to develop the analysis in relation to the more complex case of Joint Production—where two or more commodities are produced from the same production-process. It is in this special context that the problem of Fixed Capital, with its special difficulties, is tackled, together with its depreciation with age and the proper rules for calculating this depreciation (*e.g.*, what is the value of a machine at different ages?). The special problem of Land, as non-produced natural resources, and of production under different natural conditions, is then fitted into the picture; and a short concluding Part III deals with changes from one method of production to another as a result of changes in the rate of profit.

The Preface explains that the main ideas in the book had already been formed by the author more than 30 years ago, in the late 1920's. Putting them into final shape, completing special parts that remained unfinished and 'filling gaps' has been the work of the intervening 30 years, during which the author was also engaged on his monumental task of editing his 10-volume edition of the *Works and Correspondence of Ricardo*. The Preface also makes clear (as does the book's sub-title) that the work has been designed as the theoretical basis for a criticism of modern economic theory as a whole. In the author's own words:

> It is a peculiar feature of the set of propositions now published that, although they do not enter into any discussion of the marginal theory of value and distribution, they have nevertheless been designed to serve as the basis for a critique of that theory.

We are then promised that 'if the foundation holds, the critique may be attempted later, either by the writer or by someone younger and better equipped for the task'.

One can fervently hope that this promise will be fulfilled—and by the author himself. For it can be confidently said that never in the history of economic theory has so much fundamental and formally refined thought, and of so path-breaking a character, been packed into so slender and elegant a volume. It is a book that will perhaps be misunderstood and remain unappreciated by many more than will understand it; few probably will wholly grasp even the major part of it, though many can and will gain illumination and inspiration from it in part. But it is unlikely that a reader will even begin to see what it is driving at unless he has first of all some acquaintance with and understanding of the early economists and particularly of Marx.

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Every child in a Socialist State would be taught from its earliest understanding to feel a far deeper horror of a social parasite than anyone can now pretend to feel for the outcasts of the Capitalist system. . . Our Capitalist morality is flatly contrary. It does not regard the burden of labor as a debt of honor, but as a disgracefully vulgar necessity which everyone is justified in evading if he can, its ideal of the happy and honorable career being a life freed from all obligation and provided gratuitously with every luxury. In its language, success means success in attaining this condition, and failure a life of labor. This grotesque view is made practicable by the fact that labor is so productive that a laborer can not only pay the debt of his childhood, meet the expenses of his prime, and provide for his old age, but also support other persons in complete unproductiveness. If nine men combine to do this, they can support a tenth in outrageous waste and extravagance; and the more poorly the nine live, short of disabling themselves as producers, the richer the tenth man will be. All slave systems are founded on this fact, and have for their object the compulsion of nine-tenths of the population to maintain the 'upper ten' by producing as much as possible, and allowing themselves to be despoiled of everything they produce over and above what is needed to support and reproduce themselves on the cheapest scale compatible with their efficiency.

The Dictatorship of the Proletariat, George Bernard Shaw, October, 1921.