Chapter 3

Marx vs. Smith – Two "Labor Theories"

It might be inferred by some readers that Marx's theory and classical theory are in agreement, insofar as the "labor theory of value" is concerned. For Smith had a "labor theory," or at least what is sometimes considered one; and if both classical theory and Marxism posit a "labor theory of value," then apparently they agree on that issue. "Labor theory" thus might appear to be universal doctrine.

On a superficial level, this view seems correct; but the situation is a little more complicated than it seems. A superficial comparison of Marx to Smith leaves out an entire array of fundamental differences between their two "labor theories." These differences revolve around such issues as: how or why labor is value (by what process); *what* labor, in particular, is value; what evidence or process of reasoning was used to arrive at each respective labor theory; and most fundamentally, the meaning of the statement "labor is value," that is, the very nature and meanings of the respective labor theories.

It might justifiably be said that the similarities between Marx's theory and Smith's reduce to just the *words*, "labor is value," but that all the meaning of the respective theories, and all their specific details, are different.

A few passages from *Wealth of Nations* should give some intimation of why classical theory could reasonably be construed as a "labor theory." For example we have the following:

> In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labor necessary for acquiring [or as Marx would say, "appropriating"] different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually costs twice the labor to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer.*

And,

* Smith's theory is used throughout this work as a main point of reference, not because it is infallible or even accepted by the majority of present-day economists; but it retains a high degree of common sense and intuitive force even today. It is more accessible, better known and better understood than its more modern successors.

> Labor alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.

And again,

> The value of any commodity...to the person who possesses it...is equal to the quantity of labor which it enables him to purchase or command. Labor, therefore, is the real measure of the exchangeable value of all commodities.

Despite the above quotations and many more which could be adduced, it would be a mistake to characterize uncritically Smith's theory as a "labor theory," or to equate it to Marx's labor theory without considering the two in more detail.

Marx vs. Smith

First we must backtrack a little, and look at Smith's discussion of value starting at the beginning. Here we see parallels with Marx (or rather, since Marx came later, the reverse – Marx parallels Smith):

> The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use'; the other, 'value in exchange.' The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water, but it will purchase scarce any thing...

Thus does Smith make the same distinction Marx was later to make; and we notice in passing that Smith uses the word "value" in its normal sense, as an attribute or aspect *of* the commodity; nothing is gained by Marx's obfuscation of referring to the commodity *as* "a value," rather than as having value. Such abuses

of language, besides being insulting and stupid, only add confusion. (At times it seems that Marx invented his own Aesopian vocabulary simply because it was beneath his dignity to use words properly, in their customary "bourgeois" sense.)

Approach to the Differing Methods

Smith's treatment differs from Marx's in two obvious ways. In Smith as in Marx, a discussion is introduced with the initial topic of exchange value; but we have seen how Marx changes the subject, diverting it away from exchange value. He begins with exchange value as his topic, and then by a series of logical deductions, by sophistries and twists of rhetoric, proves that the object of his interest is not market value but a concept of his own invention, "congealed" or internally-contained labor.

So the first difference is this: for Smith exchange value both begins as and *will remain* his topic. And incidentally this is more economically respectable than Marx's method, for exchange value is the subject which concerns us and which is pertinent to real-world economics. In other words, no "bait-and-switch" is performed to bring in a substitute, impostor subject.

Second, Smith will not deal in total abstractions, in mere rhetorical and logical gimmickry not based on anything of a substantive nature. Of course, economics is not a laboratory science. It is impossible to deal with the subject of value without some degree of conceptualization, some constructing of a mental picture or model of economic affairs. Still, a definite difference can be perceived. Smith's is not quite the complete Scholastic method Marx's theory is; it is not armchair theorizing, entirely based on speculation and abstract deductions. Smith always makes an attempt to relate his theorizing to real-world phenomena – he doesn't completely divorce his argumentation from earthly, factual considerations.

That is, Smith's discussion will involve observable phenomena, investigated empirically. Evidence will be sought from real-world phenomena, and a constant reference will be made to observable phenomena, to make sure that Smith's data and inferences are reasonable explanations of real-world events, and that the theory is deduced from the facts, rather than the facts being invented to accord with a pre-conceived theory.

In this sense Smith's treatment is scientific. It is a good-faith effort to understand and explain the workings of the real world, drawn from the facts. It is not the invention of a fantasy world which is presumed to be superior to mere factual or "phenomenal" data. Smith may not always have been entirely successful; parts of his theory may now be outmoded. But he wrote as an

economist, not as a demagogue or ideologist – there was not the reckless disregard for economic facts and methods as there is in Marx.

In short, Smith takes as his task explaining how the real world works, and deals with the facts (and the meanings of words) as he finds them. To use a Marxist phrase, he begins with "the conception of nature as it is without any reservation." Smith seeks to explain the facts; he doesn't push toward a pre-conceived point by changing the subject. He is in some sense and degree constrained by the limiting reality of the actual world.

Various questions about exchange value

To continue with Smith's discussion:

> In order to investigate the principles which regulate the exchangeable value of commodities, I shall endeavor to show,
>
> First, what is the real measure of this exchangeable value; or, wherein consists the real price of all commodities.
>
> Secondly, what are the different parts of which this real price is composed or made up.
>
> And, lastly, what are the different circumstances which sometimes raise some or all of these different parts of price above, and sometimes sink them below their natural or ordinary rate; or, what are the causes which sometimes hinder the market price, that is, the actual price of commodities, from coinciding exactly with what may be called their natural price.

Smith accepts exchange value, and not some mystical or metaphysical entity given the name "Value," as his proper subject. Moreover, he delineates explicitly what are the pertinent questions about this phenomenon – something Marx never does in his *ad hoc* line of argumentation: it is more in his interest not to set forth the pertinent questions too explicitly, but rather to let one deduction lead on to the next, without saying too clearly where he intends to end up.

Smith's questions may be rephrased as follows: First, as to the *measure* of value, he wants to find what is the most true or significant standard for measuring or expressing the amount of exchange value. (For example, a money price is not necessarily the most informative measure of value, i.e., not necessarily the best gauge of "real" value. Even a quantity of another commodity, as "1 quarter wheat = x blacking," may not be the best picture of value. One topic Smith proposes to address then is that of the most true measure of value.)

Second, in asking what parts the price is composed of, Smith is raising an different issue, which might be called that of the constituent components of value, or the basic contributors to value. That is, he asks, What are the "fundamental particles" into which all exchange values or prices may be resolved? What are the basic "value-creators" in an economy, the fundamental factors that contribute to the final exchange value of a product? The selling price goes to recompense these separate elements, and thus all exchange values can be divided or resolved into some combination of these elementary value-creating factors. Smith will seek to identify them. (And since the selling price goes to recompense these factors, their identification will give some grounds for inferring how the magnitude of the price is determined.)

By contrast, Marx has only one constituent factor, labor. He takes a dogmatic position from the outset: exchange value is due to labor only; only labor is worthy and valuable. Value is unary, monolithic; it is identical with labor. His pretense of deducing this result from incontrovertible logic is not credible; it had actually been his position from the outset and his motivation from the start was to prove it and to denounce the parasitical capitalist or non-laboring factors in an economy. Marx had no warrant or justification for his labor theory, except that as a matter of personal animosity toward the bourgeoisie, he intended to deify manual labor and elevate it in all circumstances above every other economic element in society. Thus he assumed an exclusionary viewpoint, making labor the only value-creating element in an economy. That is, he chose his view beforehand, and developed his theory to fit it; his enemy was the bourgeoisie, and to deny validity to the bourgeoisie's economic role he produced after the fact the theory that labor is the only possible "common something" or value-creating substance. This is not science but demagoguery.

And then third, Smith's question is what factors actually determine, in a dynamic sense, the exchange value of a commodity (or the price it attains on the market). This is separate from the issue of the real measure of that value, or from the constituent factors value is divided among. It is what we normally mean by asking what determines exchange value. It aims at a cause-and-effect explanation of what causes market value to be what it is in cold, monetary or economic terms. What causes the fluctuation of prices, the vagaries of the market, the actual establishing of market price at a particular level – that is Smith's third area of inquiry.

We see, then, that one difference between Smith's labor theory and Marx's comes in the general area of method. It is a matter of basic honesty, objectivity, and a desire to describe the world as it really is, rather than as one might mentally imagine it to be or desire to show it to be. This presence of basic scientific integrity, and the adoption as one's task the describing of how the

world really works, putting aside, as much as is humanly possible, preconceived notions and prejudices – this makes the difference between science and demagogy.

With these comments about overall methods of Smith and Marx, we may proceed further with Smith's comments on the subject of exchange and exchange value:

> [I]t is but a very small part of [the necessities of life] with which a man's own labor can supply him. The far greater part of them he must derive from the labor of other people, and he must be rich or poor according to the quantity of that labor which he can command, or which he can afford to purchase. The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labor which it enables him to purchase or command. Labor, therefore, is the real measure of the exchangeable value of all commodities.
>
> The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.

Here we see one way in which Smith relates the subject of exchange value to labor. It is a conceptualized explanation, but it is also a humanistic explanation, that is to say, it is based on human behavior and motivation, building economic theory or analysis on the foundation of human economic behavior.

Smith's line of cause and effect will be based on a rationale of how human beings typically respond to a given economic event or situation. The above quotations are statements about human nature, in the economic realm, on the most fundamental level. They are really insights into universal human experience, and their validity can be judged by each reader in the light of his own nature and experiences.

The main point then is, Smith puts exchange value within a context of exchange, and seeks to identify what is important to humans in the act of exchange; a prime consideration he finds is the labor required to secure a thing. Factors like this have a bearing on exchange value because they have a bearing on human reasonings in exchange.

This is in contrast to Marx's ham-fisted reductionism, in which a certain amount of labor is supposed to "congeal" materially in a commodity, wherein it

mechanistically or automatically constitutes the value of the commodity. No one has ever seem this happen; it is not open to observation, even assuming it actually occurs.

Marx's method has the advantage of cut-and-dried simplicity, of reducing economic topics to pat mathematical formulae and mechanical relationships; but it suffers from the defects of idiotic reductionism and of grossly misapprehending the nature of the topic. Especially it misapprehends the fundamental basis from which economics itself proceeds, namely human economic behavior.

As a certain Steiner once observed, "Everything should be made as simple as possible, but no simpler."[1]

To reduce a subject to simplicities beyond what the nature of the topic permits is to idiotize the discussion rather than to explain anything. The removal of human behavior and motivation from economic theory, as in Marx's theories, is an example of such idiotization.

Smith accepts the facts of the matter "without reservation" – and does not reduce the issue to a mechanistic "congealing" of labor into solidified "value." The fact of exchange is not separated from the subject of exchange value, or commensurability in exchange; value is not converted from a "proportion, attained in exchange," into a *substance*.

Smith says, "The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labor which it enables him to purchase or command... What every thing is really worth to the man who has acquired it and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people." Moreover, "Labor, therefore, is the real measure of the exchangeable value of all commodities."

These comments of Smith's are very plain. Just like Marx, Smith says labor is value; it could hardly be clearer. Yet one would have to add first, that there is a rationality to Smith's "labor theory" that is missing from Marx's portrayal of value as the material "manifestation" of labor, labor in solid form. And then too, there is in Smith a definitude of subject, a higher degree of precision in defining the various questions he asks about value. There is more exactitude in his statements telling in what sense "labor is value," than is present in Marx's meat-ax approach. Let us examine his remarks more fully.

First we should keep in mind exactly what Smith's topic is at the point where he makes the quoted comments. His topic is not what factors quantitatively determine the market value of a commodity, i.e., what determines the price. That is of course the main, ultimate question we want to have answered; but Smith's subject here might be stated as the definition of value, or the true meaning of

value in a philosophical sense. To put it another way, his subject is not yet "what determines the magnitude of exchange value," but is still "the source and meaning of value." He is still laying the theoretical groundwork, before he can go to quantitative answers.

Thus, at the current point in Smith's text, "Labor is value" is not a statement which, like Marx's labor theory, says that a certain quantity of labor determines the market value of a commodity. Smith's statements are less quantitative and more philosophical in nature. What he is telling us is that the real meaning of the word value, or the truest *measure* of the worth of any good to the person who owns it, is the amount of labor he can "get" in exchange for it. This says nothing about what *determines* the amount he can get in exchange; it only tells us that the truest meaning of the term value, the truest measure, is to be stated in terms of labor.

Perhaps Smith's statements could be paraphrased by saying that the fundamental weighing of alternatives in regard to a commodity, the basic trade-off, is between producing it oneself (and thus doing the labor oneself), and paying (exchanging) for it. In this regard, labor is in competition with exchange as a means of acquiring things; and making it yourself is in competition with buying it – "homemade" competes with "store-bought."

Those are the basic alternatives; and thus the most basic way of measuring the value of a commodity, of stating its value in terms of units of some other element, is in terms of an amount of labor. This amount of labor is the amount which, owning the commodity, we can "acquire" by exchanging it; that is to say, it is the amount of labor embodied by the commodity which we can acquire for it. "Labor is value" means here that the amount of labor invested in the thing we can exchange for, is the amount of labor we can save ourselves by trading for a good rather than producing it ourselves; it is the amount of labor which, metaphorically speaking, we get in exchange for an item. This is in the truest, most basic sense, the value of the commodity.

For example, if I can give a diamond to a group of workmen and in return receive from them all the labor necessary to build a house (materials excluded), then on a very direct level I know the value of that diamond in labor. Or if I can trade the diamond for a fully-built smaller house, I can evaluate the worth of the diamond in terms of the labor I have saved myself, both as embodied in all the materials and as represented by the labor of constructing the house itself.

Note at this point, that we have not yet gotten to the question of what *determines* the amount of labor, or money, or anything else we get in exchange for a commodity – i.e., what determines, in a quantitative sense, exchange value. But we have gotten far enough to compare some features of Smith's exposition so far to Marx's.

First, Smith's analysis rests ultimately on human nature. We see such expressions as "The value of any commodity... *to the person*...." Value is not a physical property existing in its own right. Value is always, for Smith, value *to someone*. This is an aspect of economics that has sometimes been given less credence and emphasis, sometimes more; but some credence surely cannot be denied to it. After all, value doesn't exist in nature; exchange value is an aspect of exchange, and exchange is something people do, for reasons stemming from human nature and economic exigency. Economics must ultimately rest on the typical responses of human beings to varying economic circumstances.

Thus "value" is not an absolute, self-existing entity; it is not a natural substance. No commodity can contain a given amount of value as Smith considers it, in and of itself. All economic laws of value, in Smith's analysis, ultimately reduce to human behavior, not to physical laws governing an absolute entity or substance called Value.

At any rate, we see that Smith and Marx give different answers to the question, "*What* labor is value?". Smith has said that the "real" value of goods, i.e. the best measure of their value, is an amount of labor; in that sense, "Labor is value." But what amount of labor? Not, as in Marx, the amount they "contain" themselves. For Marx, each commodity is autonomous in this regard; each one contains its own personal complement of congealed labor. Without reference to exchange or to anything outside the commodity, its own internal contents determine its value. Its value is its labor, the labor that produced it and in the process was crystallized in it.

For Smith, the exchange value of goods is best measured by the amount of labor they can be exchanged for: that is, by the amount of labor embodied in, or represented by, whatever goods they can be exchanged for. Thus the *exchange* value of a commodity is the amount of labor embodied in something else, some other commodity for which it can be exchanged. In this analysis, the notion of exchange is preserved; a commodity's exchange value, its power to secure other things in exchange, is measured by what it can be traded for, but specifically we want to know how much labor that is equivalent to, because that is the best measure and truest picture.

(Note that we measure the value of a commodity by the labor embodied in the goods we exchange it for; there is another pertinent amount of labor, namely, the labor contained by the commodity itself, which we exchange. If an exchange is commensurate or fair, we would expect these two amounts of labor to be roughly equal. Since the two amounts of labor are each reciprocally the best measure of the exchange value of the two commodities which are exchanged, if the exchange is to be commensurate, i.e. if the two exchange values are to be the same, the two amounts of labor should be the same. That equality is not proven

or guaranteed at this point in the analysis, however; it is just an inference we can draw about the exchange.

The fact remains, though, that our determination of the exchange value of a commodity must always resolve upon what we can get in exchange; and the most fundamental measure is, the labor we "get" in exchange.)

The fact that Smith keeps this point before his readers further prevents the theory of value from being reduced to an automatistic system, a sort of quasi-physics involving a naturalistic substance called Value. Smith keeps exchange before his readers and thus keeps before them the fact that humans are the motivating force in an economy, not naturalistic laws. Value is not portrayed as a self-existing entity "contained" by the commodity. The line of cause and effect for Smith always resolves into human behavior; economics is not a quasi-mechanics expressing impersonal, automatistic relationships among physical entities.

The view that "Labor is value," then, retains in Smith's analysis (so far) the notion of value in exchange – of value as the amount of something else you can get *in exchange for* something you already have. And his theory says that the best means of estimating the magnitude of what is received in exchange, is in terms not of money or some other substance, but of labor.

And why is labor the best standard? For human reasons; for reasons having to do with the nature of economics as a human activity. The most unvarying, and the most significant, estimation of value must always be by reference to labor. "How long would I have to work to earn the money to buy that?" is a more basic and unvarying standard than "How much money does it cost?"

As Smith says, "Gold and silver, ...like every other commodity, varying in their value, are sometimes cheaper and sometimes dearer, sometimes of easier and sometimes of more difficult purchase." Thus they are not an absolute or unvarying standard of value.

This is a concept which is quite well understood today, but was perhaps less well understood at times in the past. It has even been made use of in popular literary works, Mark Twain's facetious exposition of the issue perhaps being as good an illustration of it as any. In the following passage, the protagonist, the teller of the story, is first asked a question by a new acquaintance:

> "In your country, brother, what is the wage of a master bailiff, master hind, carter, shepherd, swineherd?"
>
> "Twenty-five milrays a day; that is to say, a quarter of a cent."
>
> The smith's face beamed with joy. He said:

"With us they are allowed the double of it! And what may a mechanic get – carpenter, dauber, mason, painter, blacksmith, wheelwright, and the like?"

"On the average, fifty milrays; half a cent a day."

"Ho-ho! With us they are allowed a hundred!"...

And his face shone upon the company like a sunburst. But I didn't scare at all. I rigged up my pile-driver, and allowed myself fifteen minutes to drive him into the earth – drive him *all* in – drive him in till not even the curve of his skull should show above-ground. Here is the way I started in on him. I asked:

"What do you pay a pound for salt?"

"A hundred milrays."

"We pay forty. What do you pay for beef and mutton – when you buy it?" ...

"It varieth somewhat, but not much; one may say seventy-five milrays the pound."

"*We* pay thirty-three. What do you pay for eggs?"

"Fifty milrays the dozen."

"We pay twenty. What do you pay for beer?"

"It costeth us eight and one-half milrays the pint."

"We get it for four... Look here, dear friend, *what's become of your high wages you were bragging so about a few minutes ago?"*...

But if you will believe me, he merely looked surprised, that is all! He didn't grasp the situation at all, didn't know he had walked into a trap, didn't discover that he was *in* a trap. I could have shot him, from sheer vexation. With cloudy eye and a struggling intellect he fetched this out:

"Marry, I seem not to understand. It is *proved* that our wages be double thine; how then may it be that thou'st knocked therefrom the stuffing?..."

"Why, look here, brother Dowley, don"t you see? Your wages are merely higher than ours in *name*, not in *fact*." [2]

But the Connecticut Yankee is unable to make brother Dowley understand. One point however should be clear from the above: a dollar or other monetary amount is not the best measure of a thing's exchange value (and that includes the value of a day's labor).

Labor is a standard which has not varied over the centuries. As Smith says, "Equal quantities of labor, at all times and places, may be said to be of equal value to the laborer." That is true, or very nearly so; we all, like our ancestors, continue to have 24 hours in a day. Our available time, if not the length of the work day, is constant. A certain number of hours of labor is a constant, unvarying standard of reference.

And labor is not only invariant, it is a fundamental entity within an economy. It is the basic element or "fundamental particle" of economics against which exchange can be compared; as stated previously, we can either produce a thing ourselves, or exchange for it. One might say that, within the human estimation of alternatives, labor is in competition with exchange. Add to this the fact that our own labor is the initial source of the income which we exchange for goods, and it becomes apparent that labor must form the foundation of all our calculations about the value of anything which we intend to exchange. That is not to say that amounts of labor enter into one's conscious calculations every time someone buys something; the actual conscious calculations are more likely to be on the order of, "Can I find it somewhere else cheaper? Is it likely to go on sale soon?" and so on. But in an analytic sense, for someone seeking to understand an economy and find relevant comparisons of exchange value among various products, labor serves as the most solid measure of value. And when a buyer compares a price to the amount of money he has available to spend, implicitly the wage he receives for his labor underpins the calculations at a basic level.

As Smith says,

> What is bought with money or with goods is purchased by labor, as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. They contain the value of a certain quantity of labor which we exchange for what is supposed at the time to contain the value of an equal quantity. Labor was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labor, that all the wealth of the world was originally purchased; and its value to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labor which it can enable them to purchase or command.

Why is labor value?

The above is Smith's reasoning in saying that labor is the best measure or standard of value. It is so for humanistic reasons connected to the basic realities of human economic existence. Smith's answer to the question, "Why is labor value?" is then a human one. It is so because, whether we make a thing ourselves or buy it, it is the expenditure of a certain amount of labor which enables us to acquire it; thus in a basic sense the item "costs" us this labor. When we produce an item ourselves, it obviously costs us a certain amount of labor. By this standard too we can gauge the value of what we receive in exchange for that commodity. When exchanging for an item, what we give for an item has already "cost" us so much labor to produce, and so also the item we receive "contains" a certain amount of labor, or has required an amount of labor to produce.

The entire economic realm itself began with labor, and labor may still be seen to be its foundation. For all these (overlapping) reasons, labor is fundamentally fit to be a measure of value.

Marx's answer to the same question is that it is a physical process, or a purely mechanical equivalence: labor congeals or condenses physically within the commodity, and in that form it constitutes value automatically, all by itself. There is no human mediation of the process; it is automatic, mechanistic, a statement of physical law as much as "Steam condenses into water." Labor congeals into value; it's a straightforward natural process.

Thus the two different answers. If we now characterize those answers, we see that Smith's explanation is rational and based on the real world; moreover it is economic, that is, it attempts to explain economics in terms of the human exigencies and behavior that make an economy.

Marx's explanation is not rational and not economic. First, there is no coherent line of cause and effect showing why labor is value. His theory is based not on describing the real world but on creating a separate, hypothetical world, through a series of abstract logical deductions and invented assumptions and definitions. It envisions economics as an automaton, a self-regulating mechanistic system much like physics. But while genuine physics deals with inanimate objects which are indeed subject to the natural laws of the material universe, Marx attempts to apply the same treatment to economics, a social realm, a field of human endeavor. Thus his theory is a travesty both of economics and of natural science.

His theory does not adhere to the method and discipline of natural science, nor to economics as understood at his time; rather, it creates a closed, self-referring logical system which is Marx's substitute for economics.

What labor is value, and *why* labor is value, are as we have seen different in Smith's analysis and Marx's; so much so that we could say the entire picture

presented, the entire meaning of the "labor theory," is different in the two cases. The reader can judge for himself which approach is true to the nature of the subject. The point to be made here is that Smith's labor theory is, considering what we have covered of his analysis, only superficially like Marx's labor theory.

Authority for the two theories

Another difference between the two theories is the authority appealed to by Smith and Marx respectively for showing that labor is value; that is, how do Smith and Marx know labor is value – what source of justification do they implicitly cite?

The justification which science appeals to is, of course, factual data; every hypothesis must be borne out by experimental or observational data. A proviso must be added to that, however. It has been pointed out, with justice, that facts are not the *source* of scientific laws. It used to be naively assumed that a scientist looks at certain data and, through a process of inductive reasoning, forms a hypothesis to explain it. That is however an oversimplification. As one survey book puts it,

> What is the origin of a scientific theory?… There seems to be no simple answer; one can only say that a theory comes from an intuitive leap of the imagination, from inspiration, from induction, or from a conjecture.[3]

That is, we can't say dogmatically that every scientist gets the idea for a new law or hypothesis from experimental data. The formation of a hypothesis involves the creative process; and no set formula or recipe can be given explaining the creative process.

Hypotheses are derived from a wide variety of sources of inspiration, including dreams (how unscientific!).[4]

Thus no one hard-and-fast answer can be given for where they come from. For instance, the connection between a falling apple and Newton's law of gravity (that every two objects in the universe attract each other with a force proportional to the product of their masses and inversely proportional to the square of the distance between them) is not immediately obvious.[*]

But regardless of what we say about the source of the hypothesis, still the verification of it, the process by which it comes to be accepted as valid scientific law, must take place via the facts. Experimental data, or if that is not attainable,

[*] This is assuming for the sake of argument that the story about the apple is true.

observation of "nature in the raw," is the only sufficient justification for accepting a scientific hypothesis.

Scientific hypotheses are statements about the factual, material universe; they say, "The world works like this." Hence the only way of verifying or refuting statements of that nature is by finding out whether the world *really* works like that, or not.

Smith's authority could more or less be said to be the facts: at least they serve him as a reference for verifying and checking his conclusions. The actual factual data he presents, however, might fairly be described as anecdotal – the data is not as exhaustive and conclusive as that which would be amassed to verify a hypothesis of natural law. However, there is added difficulty here, in that the laws of physics, for instance, generally admit of repeated experimentation for the purpose of producing a comprehensive set of test data, while economic matters are not so well-defined or testable.

By contrast, the main source of Smith's data and hypotheses could probably be said to be a combination of factual observations from the marketplace, with a healthy admixture of reasoning about human economic nature of an intuitive sort. That is, Smith probably proceeds from a basis of, "How do *I* act in a given economic situation?" He reasons about basic human economic impulses and behavior from his own; he extrapolates from himself and other individuals of his observation, seeking to explain market results in light of the economic behavior of himself and other individuals. This method seeks the explanation of general economic laws in given human economic traits "writ large." Such traits he deduces from his own insight into human nature; and he forms his hypotheses about the overall behavior of the market by reasoning from those traits, extrapolating their action in the aggregate: would they produce the results that actually obtain on the marketplace, if they are indeed the motivating explanation?

Since human economic nature, on an elementary level, is quite uniform, his conclusions are probably fairly good. The reason for the divergence of Smith's method from the standard scientific model is twofold. First, economics is a social science, the study of a realm of human activity; and nothing pertaining to human behavior is as rigorous or orderly as purely natural, i.e. physical, phenomena. Human nature can be described, but only roughly, in terms of tendencies or rough generalizations. Nothing human is as uniform as the motion of the planets or any other purely physical phenomenon in the natural universe. Thus any "laws" we arrive at will be less exact, rigorous, and "hard-and-fast" than a physical law, and any data adduced will be more equivocal. The two types of phenomena are different, and hence we must expect that the kind of "laws" we can derive are different.

Second, Smith's reasoning about economic matters must be different from reasoning about natural sciences because he is himself the thing he studies, or part of it. Economics is a human phenomenon, a result of human activity "in the aggregate"; it is influenced and governed, indeed created, by human nature. Smith can examine the basis of economics on a most intimate level, by looking at his own economic nature. This author, and the reader, can do the same. Smith presumed that, when selling, people desire to sell high; when buying, they desire to buy low. The author confesses to having the same economic nature; the reader can answer as to himself. That is one hypothesis of many about human economic nature, and it is probably almost unanimous among human beings. Most of the assumptions Smith makes about human economic behavior are nearly as elementary, and nearly as reliable.

(A proviso should be added: laws like the above apply to human economic nature, that is, people's behavior when they are acting strictly on economic principles, in the absence of other considerations. People don't always act solely economically; sometimes other motivations enter in.

For example, if I want to buy a department-store item, I might check out the advertisements to see which store has it cheapest. However, if I am buying an item from an individual who seems to need the money, I might not try to bargain the price down at all. Or, if I like a product and I think the company may go out of business and quit making it, I may buy more of it, at a higher price, than I normally would if I were just suiting my own needs. It is an oversimplification to think that people always act from only economic motivation; but economic analysis can only discuss their actions and the resulting aggregate economic phenomena in terms of people's behavior when they *are* acting from economic motivations.

The point that should be emphasized in this is that people have a varied nature; there have many sides. We can produce generalizations about their economic behavior, but we must realize that people are not merely economic machines, and that at times other considerations besides the economic enter in. Our ultimate subject is people, and in real life their behavior is not compartmentalized. But for the sake of "science," so that we will be able to form *some* conclusions, in writing about economics we restrict ourselves to purely economic considerations. This does not mean we must consider people to be economic automata.)

The authority to which Smith refers in verifying his conclusions is then the real world; we can at least make that general statement. Whether it is compilations of factual data or anecdotal evidence about economic events, or characterizations of human economic nature combined with keen intuition as to the results this nature would produce in their aggregate influence on the market, Smith's ultimate authority is the real world. He proposes to tell us how real-

world economics works. And as verification, he appeals to the facts of the market (observable to all who gather the information) and the facts of human nature and human economic behavior (available on introspection, in our minds and memories).

Smith's assertions are referable to the real world; they can have held up before them the facts of our own experiences, and be verified or refuted. If Smith is not a physical scientist, at least his treatise is based on objective factual data to the degree permitted by the nature of the subject. And his statements of a *subjective* nature are to a degree verifiable or refutable; there is some more or less solid basis for accepting or rejecting them. He does not expect his reader to accept what he says on faith, and he does not simply emit dogmatic pronouncements. The statements he makes are *about* factual, objective things; in that at least he surpasses Marx. To describe "how the world works" is Smith's implicit task; in that sense at least, his work is scientific in nature.

Marx's authority

By contrast, for Marx the real world is almost irrelevant. We have seen what his method is in general. It is like the development of a branch of mathematics, in that its author feels free to invent definitions, axioms and theorems from scratch, working on a blank page. This works for "formal systems" like mathematics, but not for describing the real world, where the page is not blank. In such cases you cannot proceed from pure logic alone. It is a case where first things must come first. We may refer to British Admiral Jackie Fisher's words in this regard; he gave the following advice: "Do remember the receipt [i.e., recipe] for jugged hare in Mrs. Glasse's Cookery Book! *First catch your hare*! "[5]

Likewise, in matters of science we must always say first and foremost, "First catch your facts."

Actually, what Marx does is to contrive a purely speculative, self-contained world; a cosmology which serves as an alternative version to the real world. He creates it by means of a syllogistic system, and it is this created world that serves as the basis and point of reference for all his conclusions about economics. A given assertion or deduction is valid if it fits, or can be made to fit, within his syllogistic system. Thus Marx takes his hypothetical world as of pre-eminent validity, of higher authority than the merely factual real world.

Marx's aim is to create a self-consistent system; each part of his theory, each added theorem, must fit with logical consistency into the rest of his theory. This self-consistency is a criterion for validity of fields of mathematics, but it is not sufficient in matters of fact. Pure mathematics does not have to reflect simple matters of fact, as an economic theory must.

(To clarify that: a field of mathematics is not founded on or drawn from real-world data. But at the same time, it should have an analogue in the real world, a situation to which it may be applied. Ordinary arithmetic is applied to everyday situations for adding, etc.; complex or "imaginary" numbers have applications in electrical engineering. While a branch of mathematics stands on its own as a complete system, it is analogous to situations in the real world.[*])

In sum, the justification for Marx's theory is actually a hodgepodge of various forms of specious logic, unwarranted assumptions, and assorted tricks of purely verbal manipulations which can be used to construct a fictional world.

Recapitulating once more

For instance, Marx assumes with no justification that exchange value is a phenomenon that occurs because of the existence of a universal "common substance" within all goods – a viewpoint of astonishing crudity.

From that starting point he advances a trifling pretense of proving that labor is the only available possibility for being the common substance. To his bizarre notion of exchange value as determined by a physical substance in goods, he adds a bizarre version of the cause-and-effect relationship, saying that market value is a "manifestation" or "phenomenal form," or alternate guise, of inner, physically-contained transcendent Value. His version of the workings of the real world, on the most basic level, is a severely distorted mishmash of superstitions mysticism compounded by pure ignorance of genuine science. All of it is presented without justification other than the "dialectical" one of specious deductions from absurd premises.

This imaginary or philosophic world, the creation of Marx's own thought processes, is its own justification. If he can fit a point into it by any form of logic, or just by pronouncement *ex cathedra*, then he presumes the point is proven. The real world is presumed to fall in line with the theory; the facts are deduced from the theory rather than vice versa. The results of Marx's own chaotic thought processes, his armchair speculations, are accorded pre-eminent validity.

It should not be necessary to point out where this process differs from modern science. The basic premise of the modern scientific method could be characterized perhaps as this: regardless of how good your logic and how pure your motives, in matters of objective science there is no substitute for the facts.

[*] Even this is not always true. When George Boole devised Boolean algebra, which is applicable to computer science but which he invented before computers, he congratulated himself on having devised a form of mathematics that was completely useless.

How you logically conceive of the world to work, and how the world really works, may be two different things; you cannot equate the two. Thus you cannot sit in your armchair or ivory tower and philosophize or conceptualize about how the natural universe behaves. You have to go and find out. The fact that "you deduced it" is, in factual matters, no justification at all.

Albert Einstein, who spoke with some authority about science, put it this way:

> Pure logical thinking cannot yield us any knowledge of the empirical world; all knowledge of reality starts from experience and ends in it. Propositions arrived at by purely logical means are completely empty as regards reality.[6]

Marx's method, in contrast to a factually-based method, is a philosophic or pre-scientific method. Consider this description of the scientific method of the Greek philosophers:

> [T]o the Greeks of Aristotle's time, and for two thousand years afterward, scientific truth was best discovered and expressed by deducing the nature of things from a set of self-evident premises, which accounts for Aristotle's believing that women have fewer teeth than men, and that babies are healthier if conceived when the wind is in the north.[7]

Another author says,

> Aristotle divorced science from mathematics... Instead of proceeding by observation and measurement...Aristotle constructed, by that method of *a priori* reasoning...a weird system of physics 'argued from notions and not from facts. [8]

Marx's method is akin to that of the ancient philosophers he studied so intently. Smith appeals, for authority for his assertions, to observable facts and to intuitive insights into human economic nature, which insights the reader can evaluate from his own experience; roughly speaking, he appeals to the real world. Marx's authority is deductive logic, applied to chosen premises; the creation, from his own mind, of a hypothetical world or logical system. One method is science; the other is a method appropriate to purely reasoned systems like mathematics, but not to matters of fact. It is the method of speculative philosophy discredited (one would have thought) ever since the rise of modern experimental science.

This contrast deserves some elaboration. In Marx's theory, labor constitutes value by a physical process, much as steam, when it cools, constitutes water. No human agency needs to intervene; the equivalence is automatic, natural: it is part of the natural order of the material universe, like any other impersonal law of physics. But there are no economies or values in nature; to purport to find natural, physical laws for a social, human realm, is almost inevitably fraudulent.

For Marx, labor is value mechanistically and automatistically. Labor, all by itself, congeals into value. Then too, labor is value because of the weird metaphysics Marx invents for it. Labor "manifests itself" as value, it presents itself in "phenomenal form" as exchange value; this displaying of a variety of guises or "forms" of one entity in Marx's bizarre substitute for the search for a cause-and-effect relationship. It is his mystical, superstitious, pre-scientific means of even formulating the question.

And ultimately, labor equals value by sheer force of logic. Marx proves deductively that it is so; that the only remaining choice for the "common something" is labor. Once he proves it, presumably no questions should remain; it is irrelevant that his answer doesn't make sense. He apparently sees no obligation to explain a thesis once he has proved it, or to help his readers understand it once he has forced them, by deductive arguments printed in black and white, to believe it. And so it makes no sense that labor "congeals" into value or "manifests itself" as value. There is no rational line of cause and effect there. But Marx is presenting a closed system, an alternate world, and once he has proven a theorem it must be accepted as a new and valid part of Marx's theoretical system. It is useless to compare it to the real world or to try to grasp a rational line of cause and effect pertinent to the real world.

Thus in all the above there is no rational line of cause and effect, no real-world explanation in plausible terms of why exchange value is determined by labor. Marx presents an automatistic system: a closed, or self-contained and self-referring, system of interacting categories, with no human input needed. Marx's theory or system proceeds under its own rules, with no reference to the real world, and no human "input," necessary. The picture that emerges from Marx's labor theory is finally this: value is a physical part of the commodity, a property of it which it possesses in itself, not of the market. As the commodity is being produced, the labor producing it enters bodily into it and materializes, or congeals, or transmutes, into solid but invisible form, now being identified as "Value." The commodity thus, in and of itself, possesses a certain definite amount of value, without reference to the markets and with no human interaction necessary. The embedded "Value" manifests itself somehow, mysteriously, as exchange value, which is always in exact proportion to the amount of this self-contained "common substance," Value. It is a theory much like the theory of other non-existent entities like phlogiston, choler, or perhaps ectoplasm.

Let us by contrast proceed further with Smith's theory. It should first be noted that his comments indicate by their phrasing the conjectural or hypothetical nature of their origin. We don't actually know what prehistoric economics was like. Thus Smith says, much in the nature of a conjecture, that the amount of needed labor "seems to be" the only factor which "can afford any rule for exchanging them..."; whether that is the factor that actually *did* afford the rule, we cannot say for sure. We can only say it is plausible, and that "the produce of two days'...labor, *should* be worth double" that of one day's labor.

Quantitative Determination of Exchange Value

> *Economics is not about goods and services, it is about the actions of living men.*
>
> Ludwig van Mises, *Human Action*

Despite the differences already pointed out between Smith's "labor theory" and Marx's, we still haven't come to the central issue. So far the subject of Smith's analysis is still a general, philosophical one: it is the question of what is the best *measure* of exchange value. In fact it is almost, What is the real meaning of the word "value"?

For Smith, value still means, what you can get (or must give) in exchange for a thing. The very concept of exchange has not, as in Marx, been stripped away. Smith's point though is, that labor is the best measure of "what you can get"; labor is the most fixed, the most pertinent, and (humanly and philosophically speaking) the most "real" measure of the magnitude of what is exchanged.

Taking the argument one step further, the labor involved, the labor which is value, is the labor you "can get" in *exchange*: the amount of labor which a given commodity enables one to "purchase or command." Value still means exchange value, that is, what you can get in exchange for something. It does not become, as in Marx, the labor the commodity *itself* contains; it is not a self-existing entity, almost a substance, which the commodity possesses without any reference to exchange.

But to continue: this discussion of the real measure of value says nothing about what determines the magnitude of what you can get in exchange for a good. What we have seen so far applies once the thing is exchanged, when we already know how much money or how much of another commodity we actually get; it says we first have to "convert" this quantity to labor to know the real value received in exchange. It doesn't tell us why that magnitude is attained. Smith hasn't told us what actually determines, in a quantitative sense, the figure

exchange value attains. This is a different subject from the one previously discussed.

(That is not to say that Marx recognizes it as a different subject. His ham-fisted, meat-ax approach to nearly every subject does not admit of such subtleties. For him the issue of value is one: What is the answer to value? There is no recognition that there may be a difference between the source of value, the measure of value, and the determination of the magnitude of value. Nor do we see him articulating beforehand, as Smith does, the various precise issues he wishes to investigate surrounding value. Marx proceeds on his inchoate way, using whatever *ad hoc* bit of logic and whatever pre-fabricated assumptions come handy to arrive at one answer which is the be-all and end-all for value: Labor is value.)

At any rate, the topic we need to investigate is the determination of value – what factors or considerations determine the magnitude of exchange value. (That is, after all, the question Marx starts out with. He diverts the discussion to looking for the "property which manifests itself as exchange value," his idea of that question. And eventually he simply redefines value as labor.)

Smith himself has a "labor theory" in this area. He introduces the topic as follows:

> In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labor necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually costs twice the labor to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days' or two hours' labor, should be worth double of what is usually the produce of one day's or one hour's labor.

We have now passed from a static analysis of an entity (analysis of exchange value to see what is its best measure) to a dynamic analysis of its magnitude, a search for cause and effect. That is, we have come to an analysis proceeding in a forward direction in time. We want to be able to say, "A causes B."

And in looking at Smith's "labor theory" of what determines the *magnitude* of exchange value, or the price, we see first of all that Smith's analysis always traces the effects of labor and other factors "through" human beings; that is, it is by the effects of a given factor, such as labor, on the calculations and ponderings of human beings, that the factor bears influence on another economic factor.

Thus Smith gives a reason, *based on the economic calculation and reasonings* of people involved, why labor equals value.

His reasoning is to an extent based on conjecture, on a process of creating a mental image or "thought experiment" about early modes of human economic behavior. This is not an experimental scientific method, but Smith's conclusions do seem to be fairly acute conjecture. People seek a fair trade, or a commensurate one – neither side wants to be cheated. And if labor is the only factor or "cost" of production, labor will form the basis of the calculations. Economics is a human activity, it is "something people do." Thus a line of causation, to be considered rational and plausible, should naturally link an outcome with the effects on human behavior of any given input. For this reason Smith's explanation, while admittedly conjectural, is more in accord with the nature of the subject than Marx's quasi-mechanics of value, and more in keeping with real life.

Smith's reasoning is based, above all, on human nature in the economic realm. In any exchange, both sides tend to settle on an equal trade, value for value. (Actually, each party wants to get as much as he can, and this dialectical "clash of contrary opinions" tends to resolve in a commensurate, or equal exchange.) And where labor is the only relevant economic factor, objects representing equal investments of labor tend to be exchanged as equal.

To put it another way: labor (producing an article oneself) is in competition with exchange. Thus in exchanging one item for another, people tend to exchange an article embodying a certain amount of labor, *for* an article embodying the same amount. People, we might conjecture, have a rough idea of the labor needed to secure a given article themselves, and if an item "containing" a certain amount of labor can be traded for an item containing, or produced by, the same amount of labor, the trade is an equal one. This is true then as a result of human economic reasoning, and because in the situation we are imagining, labor is the only basic economic factor of production in existence.

Remember, Smith said the *measure* of the value of an article is the amount of labor embodied in such goods as we can get in *exchange* for the article: value in this sense is the labor a commodity enables us to *command*. The other quantity of labor we naturally ponder is the amount embodied in the commodity itself (whose exchange value we want to determine). The point now being made is: where labor is the only factor of production, the labor embodied in what we can get in *exchange* for a commodity, should tend to equal the labor embodied in the commodity itself. That is Smith's first approach to a cause-and-effect explanation of what determines the magnitude of a thing's exchange value.

That is, first Smith gives us an analysis of the real measure of value; then he tells us what determines the magnitude of exchange value. The commodity's own contained labor tends to determine the magnitude of exchange value (that is, it

tends to equal the amount contained in what we exchange for). The labor embodied in what we exchange for, is on the other hand the best measure of our commodity's exchange value. In the particular minimalist situation envisioned, or in "that early and rude state of society," we might have expected the two answers to be very close together.

So far, at least, the labor which constitutes value is the same labor in each sense of the word. As Smith says, "In this state of things, the whole produce of labor belongs to the laborer; and the quantity of labor commonly employed in acquiring or producing any commodity, is the only circumstance which can regulate the quantity of labour which it ought commonly to purchase, command, or exchange for."

The quantity of labor it ought to "purchase, command, or exchange for" is of course the true measure of its exchange value. (That is, the quantity which it does in *fact* exchange for is the true measure of its exchange value.) And where no other productive factor besides labor enters in, the amount of labor it *itself* contains, tends, in a cause-and-effect manner, to equal the amount it commands or exchanges for; this is equality or commensurability in exchange. And thus the labor "contained" by a commodity (but only in the metaphoric sense that it is the amount which it took to produce the commodity; not in Marx's idiotically literal sense) tends to govern the magnitude of exchange value. (And thus these two contradictory versions of *which* labor constitutes value can somewhat be reconciled.)

However, that is in the "early and rude state of society," or let us say in a hunter-gatherer, tribal society, where labor is the only production factor. In a more complicated economic situation, the issue becomes more involved, as we will see a little later.

The question may arise, if Marx deduces that labor is the only possibility for being the "common substance" which manifests itself as value, and if Smith hypothesizes that the quantity of labor necessary to acquire an object is the only thing that can govern its exchange value, how is Smith's reasoning any more solid than Marx's? The answer to that has to do with the particulars of the logic in each instance, the assumptions each is built on, and the whole conceptual framework within which each author is viewing labor and value.

That is, we see that Smith comes around to the same answer Marx gives: that the labor that determines the exchange value of a commodity, dynamically speaking, is the labor embodied in the commodity itself (as opposed to the labor "in" what is exchanged for, which Smith says is the measure of exchange value). Smith's answer is the same as Marx's.

However, we have noted various differences, such as, that Smith's logic or form of reasoning is rational. Moreover, he recognizes labor and value as human subjects and does not try to reduce the entire subject to a mechanistic automaton

wherein various purely physical and mechanical quantities naturally obey certain impersonal, naturalistic laws; that is to say he does not make a quasi-physics of value and labor. And Smith's entire metaphysics or conceptual framework, his entire picture, is true to the real world and deals in rational cause and effect, not in mystical notions of "manifestations" and "phenomenal forms" and "common substances" and such mumbo-jumbo.

The labor which constitutes value, or more accurately in Smith's case, *determines* value, is in both cases the labor contained in the commodity whose value is being determined. That much is the same in both cases; but while the trees may be the same, the forests are different, and the broader picture, the whole method, is in the two cases radically different.

Scientism

If we look at the overall characteristics of Marx's treatment of exchange value, a general trend emerges. That trend may be roughly summed up by saying, Marx's analysis of value is a *regimentation* of the subject. Everything he does with the subject tends to portray it as more precise, more rigorous, more a matter of objective laws than anything in classical theory. Where Smith's analysis always turns on the sometimes unpredictable actions of human beings, as in his phrase the "higgling and bargaining" of the marketplace, Marx gives us answers that are suspiciously exact, suspiciously definitive, infallible, and hard-and-fast. In fact, his rules and proofs seem more rigorous and exact than the nature of the subject would tend to support.

These characteristics of Marx's text place it in the category of scientism. We may say Marx's text is if anything *too* scientific; it is speciously scientific, scientific to a degree beyond what the subject permits. Whereas Smith's analysis is at least loosely scientific, scientific wherever possible and based as much as possible on facts, Marx's is speciously or fraudulently scientific; it is quasi-scientific, presenting a facade or veneer of science prose over a specious foundation.

It is not easy to give a clear definition of scientism. Aristotle said that it is foolish to attempt to produce a greater degree of accuracy in our explanation of a subject than the nature of the subject itself allows; or as someone has said, "Everything should be made as simple as possible, but no simpler." Scientism may be said to be the violation of both of these laws. It is the purported derivation of exact, scientific laws governing a subject which is not scientific in its nature – that is, not precise, objective and quantifiable. Thus scientism is the application, or supposed application, of scientific methods to subjects not

amenable to scientific treatment. Scientism is the writing of scientific-sounding prose about non-scientific subjects.

One author defined scientism as "the superstition of science as competent in all domains." [9]

That is a good definition too; we often see today the assumption that everything from morality to social trends can be analyzed quantitatively and objectively, as if it were a matter of scientific fact.

It may be useful to sketch again in broad terms the scientistic features of Marx's analysis so far. A major aspect of it is the removing of the human element from the analysis. Anything human is inevitably uncertain, variable, non-deterministic. There is not about human behavior the mechanistic nature and the invariability that obtains in the case of purely physical phenomena. Human beings are less predictable than say, the movements of planets or the paths of falling rocks. Thus any "laws" which can be derived are less exact and regular. Volitional beings and inanimate objects are phenomena of different orders; and they are governed by "laws" of different orders. Scientism can thus be considered the attempt to treat phenomena of one order with the methods and rules appropriate only to another order.

Scientisms very often proceed by speciously eliminating or circumventing the human-based nature of a subject. We see this characteristic in Marx's view of how labor becomes value. In Smith, labor is value for human reasons – because the reasoning of humans about value, during the course of trade, center around labor. The line of cause and effect linking value to labor proceeds by way of human reasoning, human production, human economic exigency, and human economic behavior. In Marx, labor "congeals" into value automatically, on its own, as a physical process. Human beings no more enter into it than they determine whether or not steam condenses into water.

This condensing process, this "change of state" of labor into value, is more rigorous and exact than market factors dependent as they are on volatile, undependable human behavior. It proceeds with a mathematical, impersonal precision – x hours of labor congeal into x hours of "Value," manifested as kx exchange value (in dollars, or goods, or whatever other unit). Thus Marx's analysis removes human uncertainty and human imprecision, but only by positing a preposterous view of how the world works; that is, only by scientism.

Marx deals with economic terms and concepts as if they were purely objective scientific quantities like mass and velocity, and as if the "laws" governing them were expressions of the natural order of the physical universe, just like such genuine laws as "F=ma" and "$S = V_i t + 1/2at^2$".

His treating an area of human activity as if it were a natural phenomenon, independent of human behavior, is a gross distortion of the very nature of

economics itself, not to mention of science. It is scientism; and no valid answers can come from such a travesty of the very nature of the subject involved.

For a related example, we can compare what it means in Marx's treatise to say a certain commodity "embodies" a certain number of hours of labor, and what the same statement means in Smith. Keeping in mind that scientism always seeks to increase the imputed precision, exactitude, impersonal nature, and invariability of a phenomenon, we may say the following: Marx maintains that a commodity "embodies" a certain number of hours of labor in a literal, physical sense. For him the labor is actually, physically deposited within the commodity.

By contrast, for Smith, the statement means that it took so many hours to produce the commodity; that it represents an *investment* of that much labor. Labor is embodied in the commodity only metaphorically, in the sense that so much labor was expended to produce it. But there are not the literalistic, physical connotations of the expression that we find in Marx.

Marx, it appears, uses such terms as "embodied," "crystallised," and so on, quite literally. His view adds unwarranted precision to his analysis of value. First of all it cuts out people from the equation; it makes the fact that a good embodies a certain amount of labor not a statement of past human actions or a basis for future human calculations, but a physical formula describing a purely physical, objective process. And since this embodied labor is by brute force equated to value, the commodity's exchange value becomes a precise, cut-and-dried quantity. The volatility and changeability of market conditions are finessed out of the discussion.

Marx's idea of value's "embodiment" is a gross misapprehension of how the world works; but it has the merit of greatly simplifying the analysis, of making it more infallible, and of allowing Marx to put a stranglehold on the subject, locking it into certain rigidly-defined channels or paths, from which it cannot hope to stray. This bullying or regimentation of a subject is one aspect of scientism.

The scientistic method

It should be said, in giving an overview of Marx's methodological fallacies, that his text includes a healthy dose of superstitious mysticism, to go along with its scientism. Marx shuns the scientific task of finding an objectively-discernible line of cause and effect relating value to the factor which he says controls it. He gives us, in effect, a law, "Value = K * Labor," that is, value is directly proportionate to labor; yet he does not show us how this dependency is established.

Rather than cause and effect, his reigning paradigm is one of alternate "manifestations" of entities; of "phenomenal forms," guises, and so on.

To say that value is determined by labor because one is the external "manifestation" of the other, is no explanation at all. It is mere hand-waving, a non-explanation. And it is more in tune with ancient Greek philosophy and Greek mythology than with the way we now know the world works, thanks to modern science. (Modern science depends on the premise that the world is non-random, and thus that objects don't spontaneously assume alternate guises, like the children who turn into pigs in *Alice in Wonderland*. Thus such statements as Marx's about "manifestations" and "forms" are just double-talk and nonsense phrases.)

(This proviso should be added: the finding of scientific laws is not always a matter of establishing cause and effect. The most elementary laws have no "why" to them; they are just statements of the natural order of the physical universe, or how the world works. The acceleration a dropped stone undergoes is directly proportional to the force of gravity exerted on it. But there is no logical necessity for this; it could just as easily have been proportional to twice the force. The law is a description of a basic uniformity in nature; it forms the foundation for other inferences about cause and effect, but it is itself non-reducible. It "just is.")

In the laws of physics, we are dealing with strictly physical, impersonal phenomena, which obey strictly physical laws. Market phenomena, with all the accompanying complex interactions of producers, sellers, buyers and other interested human beings, is not a matter of elementary physics. A treatise like Marx's that purports to establish a law of value as a naturalistic interrelation between two physical quantities, needing no explanation or insight beyond a quantitative correlation, is an abuse of science; the more so since no quantitative data are ever advanced to establish the relationship. And double-talk about "forms" and "manifestations" merely seeks to delude the reader.

Scientism, then, is a regimentation of a subject; it is writing pseudo-scientifically about a subject which does not admit of scientific analysis: it is "the excessive quantification of the imponderable," as one writer phrased it.

To refer again to the remark by Aristotle, it is foolish to seek greater precision in analyzing a subject than the subject permits; the producing of "laws" more exact than their subject matter must be fallacious. Similarly, the over-simplification of a subject, the removal of all the complexity and uncertainty occasioned by the fact that human beings are acting in it, cannot produce an accurate picture of the subject.

"Everything should be made as simple as possible, but no simpler." Likewise, everything should be made as exact and rigorous as possible, but no more so. That is the principle that scientism or quasi-science (consisting of the form, without the substance) violates.

Still another saying goes, "If you can keep your head while all around you others are losing theirs, you probably just don't understand the seriousness of the situation." This might be applied to the producer of a scientism, who makes great claims to reducing a previously unsystematized field to a science and to producing infallible and objective laws describing what was previously approached intuitively. His claims to bringing order out of chaos in the study of the subject may be just a matter of profound ignorance of the discipline and methods of science itself. Certainly only complete scientific illiteracy enables some "scientizers" to make the great claims for themselves that they do. Marx's claim to find a simple, hard-and-fast rule for determining a commodity's value, is an example of this. (An even more extreme example is Marx's claim to reduce human history to "laws of motion of matter," a laughable bit of Yahoo science.)

The method of scientism in regimenting the facts, or turning a humanity or social science into a natural science, is always to work in the direction of more precision, more regularity, more rigor of analysis, more infallibility and more predictability than the subject can legitimately offer. Loosely-defined and overlapping categories are presented as if rigidly defined and strictly separate. Categories that are a matter of definition are portrayed as logically-necessary and ineluctable categories. Arbitrary definitions are treated as logically required by the nature of the subject.

To give a typical example: all of the above mechanisms come into play in Marx's development of his concept of "class." Classes may be defined in various ways – according to income, or occupation, or amount of education, etc. But Marx writes as if there were only one, logically necessary manner of dividing people into classes. He assumes the boundaries are sharp, well-defined, and non-overlapping; that people do not cross them, do not advance from one class to another in the course of their working career; that there is nothing arbitrary about his identification of classes, but that the categories are required by the nature of the phenomena as a matter of objective truth; that the classes he identifies are plainly observable, present in the raw data, required by nature itself. Taking into account all the assumptions and theory Marx invests in his concept of classes, "caste" would be a more appropriate term than "class." The characteristics he attributes to classes add up to a description of castes; only the word he applies to them remains "classes." His "classes" are castes, and his "class theory" is actually caste theory. That is typical of the regimentation and pseudo-exactitude of scientisms.

Scientism portrays everything subjective, everything which is a matter of taste or aesthetics or perception, as a matter of objective fact. Whatever is tentative and approximate is portrayed as definitive and exact. Whatever is abstract is portrayed as concrete; whatever is a matter of human behavior is portrayed as a matter of purely material correlations. Whatever is expressible

only as a tendency or rough rule of thumb is expressed as an iron-clad rule. Whatever is human-determined, a matter of social phenomena, is portrayed as a matter of naturalistic, mechanistic phenomena.

By all these means scientism removes all elements of uncertainty, all human variableness, from a subject, and "organizes" or regiments it into a science-like schema. The result is a rigid, mechanistic framework of categories imposed over the facts. Within this schema the facts are "allowed" to work, or presumed to work, strictly in accordance with the pre-ordained, prescribed patterns of the scientistic schema. They are not allowed outside the channels allotted to them. Thus scientism as a theory bullies, or regiments, the facts, and the rules of the scientism take ascendancy over the facts: the facts are rejected if they don't fit the scientism. Facts are henceforth deduced from the theory, rather than vice versa.

Thus we see that Marx is producing a scientism in displacing exchange value, a variable and volatile market phenomenon, for "Value," a cut-and-dried matter of "X amount of congealed labor-time." Whereas in classical theory exchange value is established not by any scientific or mechanistic law, but by the "higgling and bargaining" of the marketplace, "Value" as embodied labor is a mere result of a mechanical change of state or transmutation, like steam condensing into water. And a given amount of steam, or labor, always yields a precise amount of water, or Value.

And whereas exchange value is only determined *a posteriori*, in the events that occur on the marketplace, "Value" is *a priori* – the commodity possesses a fixed amount of it within itself, even before it goes to market. The market price can only affirm or endorse this pre-determined quantity.

The exactitude and infallibility of the resulting laws can hence be much greater in Marx's theory. Marx's theory is naturalistic or materialistic: it reduces the role of human beings to a bare minimum, and eliminates people wherever possible. People are still seen to produce the goods, it's true; but in Marx the determination of the exchange value, or "Value," of goods, then proceeds automatically, by a physical process: X amount of labor crystallizes into X amount of inner "Value." And X amount of Value, by a mumbo-jumbo formula, "manifests itself" as kX exchange value. Decisions on the part of buyers and sellers are dispensed with in Marx's theory of value. It becomes a purely mechanistic process, wherein value simply condenses, like dew.

Marx's prose and scientism

Much of the orotund and confusing character of Marx's prose is due to the ever-present drive to remove people from his theory. Human beings as the

functioning agent disappear. Thus Marx says commodities "come into the world" in such and such a manner – not "are produced [by people]" but "come into the world." Commodities "are the repositories of exchange value" – that is, commodities contain value without reference to human market behavior; value is one object, contained by another. He uses such locutions rather than saying, "People produce and exchange commodities."

Whenever possible Marx gives the impression that he is dealing with impersonal objects, objects found in nature, and that his theory is an exposition of the natural laws and order related to these neutral, objective entities.

Value as a category

Another scientistic aspect of Marx's theory is how his labor theory turns value into an *a priori* category. In Smith, for example, exchange value is a quantity which is determined by measuring it, that is, by finding out how much things are actually selling for. Exchange value is thus an *a posteriori* quantity; one must first await the event, or the determination of the exchange value (in the course of a purchase) and then determine the exchange value by observation. Exchange value is the *a posteriori* record of an event or complex of events.

For Marx, however, once he has made his theoretical analysis equating value to labor, value (and presumably exchange value) becomes an *a priori*, or logically-determined category. He knows the value of the good *before* it goes to market, and it is apparent that for him, value is pre-determined before its sale or exchange. It is determined by a past event, that is, by being logically equated to a past event or category, namely, the "condensed labor." Value is just there, within the commodity, existing in and of itself as a definite, static entity. It is an aspect of the commodity itself, not of any event such as exchange; it is determined by the internal logic of Marx's system. Thus it is precise, rigorous and utterly predictable quantity.

Scientism in summation

Scientism may be said to be a systematic misrepresentation of a subject through the regimentation of the facts. It is the imposing of a higher degree of science-like nature to a subject than is merited. Scientism pushes everything in the direction of greater certainty, greater precision, greater rigor, and a greater degree of predictability and regularity than is justified by the true nature of the subject. It removes all ambiguity, all subtlety, all the variableness and uncertainty of human influence from a topic. It converts a human topic, one where we can at best speak of tendencies and rough approximations and general

rules of thumb, into a rigid, infallible system, purportedly as orderly as clockwork and the orbits of the planets.

Thus Marx's economics is very much a pseudo-mechanics composed of economic entities, with supposedly physical quantities like "Value" (not the same as exchange value), being interrelated by mechanistic, physical laws. (And the entire picture is one of physical processes, like "congelation" or changes of form, rather than the complex lines of cause and effect involving human behavior).

Moreover, Marx's ultimate source of authority is his set of axioms and deductions, the entirety of his self-contained logical system; so that labor is proved by inexorable deductive logic to be equivalent to value. The results of this self-referring abstract system are taken as conclusive and authoritative, with no need to investigate in an empirical manner. Logic can compel the facts, and armchair theorizing is superior to science.

Marx thus abuses his subject in two distinct ways. His picture of how the world works converts economics, a social science, into a quasi-physical science, an expression of the supposed natural relationships among impersonal *things*. His method of deriving the picture, on the other hand, is more like pure mathematics (or philosophy) than science: he begins with a set of arbitrary assumptions and definitions and proceeds, usually by specious logic, to develop theorems, basing each additional theorem on what has preceded it, with additional definitions, assumptions, and prevarications of various sorts as he goes along. This method as a net result amounts to ignoring the real world in favor of a fantasy world created from Marx's own imagination. This fantasy world he steadfastly and insistently maintains, throughout his work, to be the real one, or at any rate more valid than the real or "phenomenal" one. There are harsher words than "scientism" which can be applied to this total disengagement from reality and this assertion of absurd theses with an insistent logic; but it is certainly scientism at its worst.

The Factors of Price

We can now advance to further comparisons between Marx's and Smith's theories. Smith has said that, in the absence of any other pertinent factor, labor alone would naturally serve as a standard of value. However, in any society but a primitive society of hunter-gatherers – that is, in any society with an economy as such – labor is not the only factor determining value. As Smith notes, once "stock has been accumulated," once the role of the entrepreneur has come into existence, profit becomes a consideration, in addition to labor:

> In exchanging the complete manufacture [i.e., product] either for money, for labour, or for other goods, over and above what may be sufficient to pay the price of the materials, and the wages of the workmen, something must be given for the profits of the undertaker [i.e., *entrepreneur*] of the work who hazards his stock in the adventure.

That is,

> Neither is the quantity of labor commonly employed in acquiring or producing [or as Marx would say, "appropriating"] any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command, or exchange for. An additional quantity, it is evident, must be due for the profits of the stock which advanced the wages and furnished the materials of that labor.

The reasons why this is so, or let us say the basis of Smith's reasoning, is first of all that that is how economics really works, as a practical necessity. The rationale for profits is not any *a priori* system of logic, but rather the exigencies of economics and human economic nature in the real world. As Smith points out, of the entrepreneur: "He could have no interest to employ them, unless he expected from the sale of their work something more than what was sufficient to replace his stock to him" – no entrepreneur is in business to break even.

Smith is on more solid ground here than before. In speaking of the "early and rude state of society," he was mainly conjecturing, projecting himself into the situation to say that for example a beaver would be worth two deer. It was mainly a "thought-experiment," though one based on fairly reasonable logic.

Here, though, he has access to fact; he was able to observe entrepreneurs and markets, and it is an observable fact that if the entrepreneur cannot make a profit on the goods he produces, he soon seeks another means of making a living. On the other hand, some entrepreneurs are successful, and the gaining of profit is also an objectively observable phenomenon.

In this regard Smith's work is a *description* of economics as it actually occurs, not the invention of a hypothetical system out of his own imagination. Profit does actually occur and is one of the factors of price (or to put it another way, the entrepreneur's role is one of the factors of production). Smith describes with impartiality the facts of the real world; his work is not a diatribe or moral tract.

In addition to labor costs and profits,

> As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce.

(We note in passing that Smith was not unthinkingly approving of entrepreneurs, as he is usually portrayed.) At any rate, anyone wishing to use the land or what grows upon it,

> ...must give up to the landlord a portion of what his labor either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities make a third component part.

Thus Smith identifies three elementary components of prices, three factors in production which a price goes to recompense:

> In every society the price of every commodity finally resolves itself into some one or other, or all of those three parts [namely wages, profits and rents]...

In modern terms we might just say the entirety of capital costs, including land and physical facilities, is a basic factor of production.

Smith also identifies another factor, interest. This he categorizes as a variation on profits, or rather on the use of an accumulated stock of money or goods. The borrower pays for the opportunity to make a profit, and for the borrower's (and the lender's) risk, as Smith sees it:

> The revenue derived from stock, by the person who manages or employs it, is called profit. That derived from it by the person who does not employ it himself, but lends it to another, is called the interest or the use of money. It is the compensation which the borrower pays to the lender, for the profit which he has an opportunity of making by the use of the money. Part of that profit naturally belongs to the borrower, who runs the risk and takes the trouble of employing it; and part to the lender, who affords him the opportunity of making the profit.

In this we see an important contrast with Marx's analysis. Whether we call the issue here that of "the component parts of prices" or "the fundamental

elements of production," the significant point is this: whereas Smith admits all three factors into his analysis, Marx arbitrarily bars rents and profits. He excludes these two factors from the outset, capriciously, and proceeds to build his theory on the premise that labor alone contributes to value.

And the way he excludes rents and profits is basically by just refusing to see them. In his search for the "common something," which is itself a bizarre formulation of the issue of exchange value, all he is able to see is labor. Rents and profits just don't register on the screen; to him they're invisible, by conscious intent.

That is, while Marx can identify as a common element of all commodities the property of being produced by labor, for some reason he cannot perceive the fact that they are produced at the initiative of an entrepreneur (who must be paid, in profits) or the fact that they are produced somewhere, on some piece of land – that is, that rental costs for the physical facility are also a factor in production.

Apparently labor manages to "embody" itself in the commodity and crystallize, whereas rents and profits bounce off or somehow fail to do so. But that of course is just Yahoo economics. It is just Marx's excuse for finessing rents and profits by simply ignoring them; for excluding the factors he hated and wanted to denounce – entrepreneurial factors. As a description of real-world economics it is nonsense. Marx simply wanted to throw away some of the marbles before the game began and build his theory around what remained.

But in doing so he denies reality and ends up writing his preconceived fantasy, "the myth of the proletariat as the chosen class,"[10] as Raymond Aron puts it (in *The Opium of the Intellectuals, p.xv)*; the myth of labor as the only worthwhile economic factor.

That is Marx's version of science; but there is no justification for discarding those phenomena which one simply doesn't like. To do so makes the objective universe subject to the writer's imperious will – hardly a scientist's method.

Not a labor-only theory

> *"[M]oney questions will be treated by cultured people in the same manner as sexual matters, with the same inconsistency, prudishness, and hypocrisy."*
>
> Sigmund Freud, *"Further Recommendations in the Technique of Psycho-Analysis"*

Smith's analysis differs from Marx's, then, in that he doesn't make arbitrary assumptions in order to dismiss economic elements he doesn't like. He is not entirely uncritical of the economic role of entrepreneurs and landlords, but he

reports the undeniable fact that profits and rents are genuine economic elements: they are factors of production, which fact means that the contributions of the entrepreneur and the landlord must both be recompensed out of the price gained for the product. Profits and rents thus are components of the price, along with labor costs.

The result is that Smith's labor theory, unlike Marx's, is not a labor-only theory; rather, it is a labor, plus profits, plus rents theory. All three contribute to the price (or value) of the commodity in Smith's analysis (and in the real world).

This is an important point, for much of the significance of Marx's labor theory is that it is a monistic, labor-only theory; and that it refuses to impute any value or worthwhile contribution to the entrepreneur (either the profit-maker or the landlord). However, it is fanatically and dogmatically a labor-only theory; it is labor-only in defiance of all facts and common sense.

Smith's view of the roles of rents and profits by contrast is not paranoid; he accepts them as, if not actively benevolent, at least natural and justified. He says of the entrepreneur:

> His profit, besides, is his revenue, the proper fund of his subsistence. As, while he is preparing to and bringing the goods to market, he advances to his workmen their wages, or their subsistence; so he advances to himself...his own subsistence, which is generally suitable [i.e., proportionate] to the profit which he may reasonably expect... Unless they [the goods] yield him this profit...they do not repay him what they may very properly be said to have really cost him.

He also says simply, "The revenue which proceeds altogether from land, is called rent, and belongs to the landlord" – that is, it belongs to him of rights, as it were. At least, Smith seems to accept this as a matter of fact, and as neither an aberration nor a scandal. It is simply an economic fact of life. "Nobody does ought for naught," and in strictly economic calculations, no one should be required to. That is where Smith's "labor, rent, and profit" (and interest) theory differs from Marx's labor theory.

(Although Marx congratulates himself on having "the conception of nature as it is, without any reservations," it would seem to be Smith, rather than Marx, who can accept the economic facts of life without reacting with a sort of Victorian sense of scandalized horror.)

Smith seems to accept is as a given that profit and rent respectively belong of rights to the entrepreneur and the landlord; that those who wish either to use the land or buy the product must pay for that use, and must make the rental of that land or the manufacturing of that product profitable to the entrepreneur.

Otherwise the capitalist would have no reason for allowing such use or making the product. To put it another way, all those contributing to the production process, not just the manual laborers, must receive their own appropriate return from it; and no one should demand the use of another person's property or money for nothing. This is elementary justice and common sense of an age-old sort, but which communists claim to have superseded. (But we must always beware of those persons who claim to supersede age-old wisdom.)

A proviso: while we may say a person's land or productive mechanism should not be used without paying for that use, Marxism actually makes a more fundamental criticism. It says that the person should never have been permitted to own that land or to start that factory in the first place. It doesn't actually reason from the facts as they are now; it purports to describe those facts, but it also says the situation should never have come about (or at least, it should be removed).

The position of this book will be that the owner of that land and that factory has a right to own them, and especially that no justification can be trumped up in Marxist theories for denying that right or for taking the land or factory from him. "Thou shalt not steal" (or "Thou shalt not expropriate") is another piece of age-old wisdom that should not be lightly discarded.

Smith advances a rationale for the remuneration of entrepreneurs here – the entrepreneur is paid, or "rewarded," for risking money and for taking the initiative in the production process. This is just as valid as paying the laborer for his sweat and toil, and just as much a fact of economic necessity. (This is quite apart from the fact that the entrepreneur's role is not free of physical labor, as anyone who has ever run a small business, or even actually worked in one, would know. But the real issue is not what he may earn as a result of his labor, but the portion of his earnings attributable to the profit factor.)

Smith relates his analysis of the components of price, i.e., of the factors of production which must be remunerated out of the price, to his previous subject of the measure of value:

> The real value of all the different component parts of price, it must be observed, is measured by the quantity of labor which they can, each of them, purchase or command. Labor measures the value not only of that part of price which resolves itself into labor, but of that which resolves itself into rent, and of that which resolves itself into profit.

(Again, here we are talking about labor only as a *measure* of value. For instance, if profit is $3.00. we judge the true value of that $3.00 by the amount of labor it will purchase. We are not on the other side of the issue now, i.e., on the

topic of what determines the *magnitude* of value; especially we are not speaking of finding the proportion of labor in a commodity's price due to the profit component and the proportion due to the rent component – that would be impossible to determine at this point.)

In a commensurate exchange, the sums of these three measured amounts of value "ought commonly" or "should naturally" balance in two items which are exchanged; that is, under "normal" or idealized conditions they should add up to the same on each side of the equation or exchange. Thus the sum of labor costs, rents, and profits might seem to afford a rule for determining the proper value of a commodity.

Yet this is only a theoretical or analytical rule; it is not what actually determines the price of a commodity on the market. What Smith is giving us here is still static analysis; he is not telling us what dynamically, in a cause-and-effect manner, does determine price.

What Determines Price

What then in fact determines the amount of goods, or money, or labor (the truest measure) which a commodity actually commands on the market? For Marx, we may recall, there is no difference between this question and the issue of the measure of value – there is no differentiation of the subject into such separate issues; value is defined as labor, it is identical with labor, and that is an end to it. By contrast, we now look at Smith's answer to the question of what dynamically determines exchange value.

> There is in every society or neighborhood an ordinary or average rate both of wages and profit in every different employment of labor and stock...
>
> There is likewise in every society or neighbourhood an ordinary or average rate of rent...
>
> These ordinary or average rates may be called the natural rates of wages, profit, and rent, at the time and place in which they commonly prevail.
>
> When the price of any commodity is neither more or less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.

> The commodity is then sold for precisely what it is worth, or for what it really costs the person who brings it to market; for though in common language what is called the prime cost of any commodity does not comprehend the profit of the person who is to sell it again, yet if he sells it at a price which does not allow him the ordinary rate of profit in his neighbourhood, he is evidently a loser by the trade; since by employing his stock in some other way he might have made that profit. His profit, besides, is his revenue, the proper fund of his subsistence.

Note that Smith says, "The commodity is then sold precisely for what it is worth." By this he seems to be implying a "correct" worth, meaning, what the commodity *should* sell for. There is this aspect of value, which, unscientific as it might be, is hard to dismiss from our minds. We often speak of a given thing as being "worth more" (or less) than it could now be sold for on the market. There is a value which is such in a more transcendent or fundamental sense than the price the product happens to be selling for at a given moment on the market.

Smith's "natural price" has much of this connotation of intrinsic value. "Natural price" probably comes closest to matching in economic terms our intuitive idea of worth, of what a thing "ought" to sell for. That concept says: under normal economic conditions, the real or proper value of a commodity is the total of its cost of production to the seller: labor costs, rent, and a "proper" or "normal" profit for himself.

This proper or normal rate of profit may be hard to define, but like many other things in economics, we do form a pretty good consensus on it, from (as Smith indicates) the ordinary or average rates, from the daily give and take of the marketplace.

However, this natural price, this estimation of the proper price under normal conditions, is not exactly what determines actual market price:

> The actual price at which any commodity is commonly sold is called its market price. It may either be above, or below, or exactly the same with its natural price.
>
> The market value of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labor, and profit, which must be paid in order to bring it thither. Such people may be called the effectual demanders, and their demand the effectual demand...

Thus Smith identifies the factors that dynamically determine the actual price given for a commodity. He tells more about the mechanism by which it works:

> When the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are willing to pay the whole value of the rent, wages, and profit...cannot be supplied with the quantity which they want... A competition will immediately begin among them, and the market price will rise more or less above the natural price...

Likewise,

> When the quantity brought to market exceeds the effectual demand, it cannot be all sold to those who are willing to pay the [full price]... Some part must be sold to those who are willing to pay less, and the low price which they give for it must reduce the price of the whole. The market price will sink more or less below the natural price...

And finally,

> When the quantity brought to market is just sufficient to supply the effectual demand and no more, the market price naturally comes to be...as nearly as can be judged...the same with the natural price.

There is a speculative or conceptual character to this entity, demand; that is, there is an element of circular reasoning implicit in the discussion of demand. Smith says, "When the quantity... falls short of the effectual demand... ." That sounds as if there were a certain fixed quantity, the effectual demand, which we *know beforehand*, and which is not met, giving rise to certain results. Actually, we only know demand is not met by first seeing the results; only then can we infer, *a posteriori*, something about the magnitude of demand. That is: while conceptually we can say there is a certain demand, consisting of all those units salable at the natural price, in practice demand becomes known by trial and error, *a posteriori*, by examining results at certain magnitudes.

So rather than "Failure to meet demand produces such and such results," we would have to say (if we wanted to reflect our mode of investigation), "These results indicate failure to meet demand."

Natural price and supply and demand

There may be a certain amount of confusion about the respective roles of "natural price" and supply and demand: it seems that each of the two in a sense determines exchange value, but at different times, with "natural price" determining it under conditions of equilibrium. Is this self-contradictory?

The sum of the labor costs, rents, and profit, logically determines the market value, in this sense: these are the elements that must be recouped out of the item's price; and thus this sum naturally serves as the basis for the calculations of the entrepreneur (a static analysis). When he goes to put a price on his product, he wants to cover his costs and make a profit in addition. The sum of rents, labor costs, and a desired profit thus determines the price he will ask.

This basis for the entrepreneur's reasonings does not automatically guarantee the price asked will be received, however. That is a difference between Smith's theory and Marx's. Marx seems to assume that his theoretical conclusions are compelling on reality. If his analysis proves value to be equal to a given theoretical category, Marx considers the job is done: value must, in the real world, equal that quantity. Logic is deemed to compel the facts, and value is forced, will it or nil it, to equal the figure he has arrived at. This is a superstition.

But natural price, even though it is analytically "correct," is not always realized. That is to say, supply and demand actually govern the price received; but under "normal" conditions, supply and demand tend to correspond to the natural price. This is because natural price, too, has its dynamic side: it expresses the sum of economic costs of an item and is the setpoint for desired price as judged by the seller.

In addition to serving as a basis for the entrepreneur's calculations, because of the dynamics of exchange, under "normal" conditions natural price tends to actually determine price. A commensurate exchange would be one in which the total of the "costs" or investment in each commodity exchanged equals that of the other: since each side wishes the best deal it can get, under normal or balanced market conditions commensurability of exchange tends to result. Thus in this sense too natural price, the sum of labor costs, rents, and profits, tends to be the determiner or guideline figure for exchange value.

Moreover, there is this to say about natural price: for a product available on the market on a continuing basis; that is, for a successful product, the natural price, or a figure not far below it, must be received as the market price.

That is to say: price can be divided into the elements of labor costs, rents, and profits. This static analysis however does not guarantee anything about the price received: consumers may reject the product, and it may be possible to get no more than a fraction of the desired, natural price for it. In that case the seller of the product goes out of business. If the price gained won't cover production

costs – labor and rent – as well as at least a fraction of desired "normal" profit, it does not pay to produce the product. Thus while nothing guarantees a capitalist that he'll receive the natural price for an item he produces, if an item appears on the market on a continuing basis, something close to the natural price is probably being received.

To sum up then, the natural price is a matter of theoretical analysis and doesn't actually determine the market price; the interaction of supply and demand does that. But natural price is a measure of what one side of the transaction desires to receive for it and must receive; it has a bearing on whether there will be supply; and it is the quantity supply and demand tend to resolve upon. In that sense it too may be said to determine price.

Summation

Thus, Smith and Marx agree that labor is an important consideration in determining value. But Marx's is a *labor-only* theory, whereas Smith admits rent, profit and interest into the discussion. Moreover Smith's discussion dwells upon real-world economic considerations and reasonings; he doesn't create a fictitious, deduced schema to be imposed dogmatically upon the facts. And insofar as the topic of discussion is what determines the proportion in which various goods are exchanged for one another, Smith's ultimate answer is not labor, but supply and demand. Thus there are fundamental differences between Marx's theory and Smith's, though both have been labeled "labor theories."

As to the difference in methods, then: where Smith's method is, as far as is possible, investigative, Marx's is deductive. Smith's analysis takes as its purpose the finding out of the facts, as far as this is possible for a social science. This is in keeping with the scientific method. Marx's method on the other hand seeks the truth of a matter not by factual investigation of the objective world, but by manipulation of abstract categories, in the style of the pre-scientific philosophers. The facts are deduced from his theory, rather than vice versa; and the results are presumed to hold authoritative sway in the real world.

This notion, that the real world is subject to abstract argumentation or words on a page, might be labeled fatalistic, or superstitious, or Scholastic; all those terms apply. Marx's implicit assumption is that once he has derived, by a complicated series of logical manipulations, a formula or categorical definition for value, real-world or market value must necessarily fall into accord with it. The events of the real world follow after his derived arguments and are compelled by them, Marx seems to say. Thus where Smith's argument is descriptive, Marx's is prescriptive. He prescribes for reality, in preference to making sure his analysis is in line with the facts and takes full account of them.

Like entire traditions of pre-scientific, authoritarian, and anti-rational modes of thought, Marx puts the cart before the horse. For that he deserves recognition as an atavism and neo-superstitionalist, not a leader of a progressive and scientific movement.

Scientism in Summary

We are now in a position to form an overview of the ways in which Marx's theory scientizes the subject, that is, of how it creates a regimented or speciously exact picture of the phenomena under discussion.

First there is the "bait and switch" operation concerning value. Exchange value is an economic phenomenon and an objectively observable one; and it is related to the market exchange of goods – a human realm of activity. These characteristics make it pertinent to economic analysis, but not amenable to Marx's purposes. Therefore exchange value is shunted aside in Marx's analysis; it is displaced or subsumed by a specious entity which he also calls "value." This new "value" is portrayed as a physical object or property, a physical entity governed not by the laws of human economic interactions, but by newly-discovered laws of quasi-physics – impersonal, mechanistic laws. These laws are much more rigorous than any genuine description of human economics can be. Thus Marx removes the uncertainties and imprecisions of human behavior from his theory, along with genuine economic laws pertaining to exchange value as it relates to human economic behavior. He discards conventional economic entities as known and conceived of at his time, and he creates pseudo-entities, rigorously definable by his pseudo-laws.

Marx in effect eliminates economics from the discussion and proceeds to discuss capital in as a kind of parody of physics, a pseudo-physics of naturalistic properties and mechanistic laws. Freed from considering the uncertainties of the marketplace, he is able to assign a regimented, cut-and-dried character to value, and to define its magnitude by an infallible and precise mathematical formula: value equals exactly the amount of labor invested in the production of the commodity. Even more than this, value is identical with the embodied labor.

This is Marx's pseudo-physics: labor congeals, changes state, or condenses into the exactly corresponding amount of congealed labor. Thus the quantities involved are precisely known, the correspondence between labor and value is inexorably and rigidly fixed, and no human agency such as buyers or sellers on the market need make any judgment or decision in order for the law of value to hold true: labor equals value automatically and impersonally.

The metamorphosis takes place entirely within the body of the commodity itself: labor converts to value all on its own. Thus Marx produces an unvarying,

mechanistic rule where before (in classical economics) only rough generalizations and approximations, based on economic analysis and considerations of human economic nature, had been possible. Marx tells his readers more than can really be known about the subject; he expounds on it with a greater degree of certainty, precision and rigor than is genuinely possible. That is a defining characteristic of scientisms.

It should be kept well in mind that in producing his pseudo-rigorous theory of "value," Marx actually discards his original topic, exchange value. The value he discusses is a "ringer" or phony substitute, sharing only the same name. His "value" is not "the proportion in which various goods are exchanged for one another," i.e., market value. Rather it is a privately-defined "value," a pet or private concept, identical in meaning to "congealed labor." Scientism is related to sophistry; and all sophists like to invent their own definitions of words. Rather than investigating the facts and the substantive issue, sophists prefer to redefine key words so as to make their case by force of definition, as it were. They reduce the discussion to a mere "thing of words," a matter of "dialectics" rather than substance.

Redefining words in a subject under consideration doesn't resolve anything, it only reduces the discussion to idiocy. If you want to know whether the ostrich is a mammal, it doesn't help to redefine mammals as "any large land creature, including the ostrich." Such maneuvers with words don't prove anything; they only obfuscate the issue. What Marx says about value, meaning "congealed labor," can tell us nothing about market value, which is what interests us.

Abraham Lincoln once characterized an opponent's argument as "a specious and fantastic arrangement of words, whereby a man may prove that a horse chestnut is a chestnut horse." There is that quality of mere verbal gymnastics, of specious and frivolous argumentation, about Marx's labor theory. His rhetoric has the same effect of proving, by interminable and convoluted argumentation, a patently nonsensical thesis. It is notable that Marx offers a (presumably) conclusive proof of a patent absurdity – that labor physically converts to value and that no other economic factors enter into the determination of value. This proof of an absurdity is reminiscent of the facetious "proofs" mathematicians used to like to write, proving such assertions as "one equals zero" or "a right angle equals a straight angle. "[*]

We must always be wary of people who prove conclusively, in black and white, absurd statements; there is generally more to their arguments than at first meets the eye.

[*] Blaise Pascal was one writer of such facetiae.

Further Comparison Between Marx's and Smith's Answer

It is not as easy to verify or refute a proposed law of economics as it is to do so for a law in the experimental sciences. The phenomena of the market don't "hold still" for investigation; they aren't easily quantifiable, like the matters of concern to physical science. But Smith's hypotheses about value can be checked easily against one source at least: our own experiences and actions in the economic realm. Let the reader ask himself, then, whether Smith's explanations of value square with his own experience.

Smith gives supply and demand as the factors which together actually determine market price. Depending on the relationship of demand to supply of a commodity, i.e. of would-be buyers to the amount of the commodity being offered for sale, the price will vary.

The desire of the buyer to buy as cheaply as possible, we understand, is in conflict with the desire of sellers to sell high. The reader can first check that premise of Smith's against his own respective inclinations.

The dynamic Smith refers to regarding price is something we have all seen. A merchant with "distressed merchandise," who is having trouble selling at the desired price, cuts his price. On the other hand, a merchant in a "seller's market" is under no pressure to give discounts or special deals; a car dealer, for instance, who is selling a car in high demand, or a car whose supply is restricted (by import quotas, for instance) so that supply is below the effective demand, can insist on selling for the "full book price" or even more.

We know also that the factors Smith enumerates – the sum of production costs, including labor costs and a desired profit – really do serve as a "benchmark" figure for price; the sum is something for the seller to aim for. Those factors must obviously be recompensed out of the price received for a commodity, in order for the production and sale of the commodity to be worth the entrepreneur's efforts.

We see also in our own experience that some products do fail; demand, as Smith explains it, is too low. Comparing this to Marx's theory: regardless of the amount of "congealed labor" contained in them, their price doesn't fatalistically and supernaturally attain the proper, statutory magnitude prescribed by Marx's law of value. The potential buyers have some say about that; and to paraphrase a well-known malapropism, “if people don't want to buy the product at the required price, no one can stop them." Supply and demand do control the price of a commodity, not abstract theories and hypothetical categories.

These facts of economic life are rather prosaic, and they're before us every day. Moreover, the terms of discussion which accurately reflect the true nature of economics as a science are those of classical theory. Marx's theory strikes one as a new approach or insight because he seeks to reformulate the discussion at its

most basic level – to "revolutionize" the entire set of terms of debate. But Marx's terms, his theoretical framework, are entirely specious. The facts favor the viewpoint and approach of classical theory, the *economic* theory of economics. (If earlier classical theory erred in certain details, it succeeded marvelously in posing the terms of investigation.)

Smith's explanation is a product of rational insight built upon keen observations of human behavior in economic matters. The terms of his investigation are economic, whereas Marx converts the discussion of economics into a series of speculations on metaphysical and pseudo-scientific categories, and manipulation of defined logical constructs. Marx withdraws from the economic realm, and indeed from the real world itself; he prefers to create a fictional world, a network of interlocking hypothetical categories of his own devising. His self-referring imaginary world may be called science fiction or fantasy; but in no way is it science.

How Labor Is Value

To the extent that both Marx's theory and Smith's can be considered labor theories, there still remains a difference between them, in the rationale or mechanism each theory envisions by which labor determines value. That is, the theories differ in their respective views of *how* labor is value.

We have seen that, in Marx's theory, labor is value by physical transformation – labor congeals directly into value. Moreover, labor is value by logical equivalency – it is proven to be the only possible choice for the "common substance," and thus proven to be identical to value. And, finally, labor is value by an act of definition. So by three (logically contradictory) processes Marx equates labor to value.

Smith's answer is different from these. (First of all, remember we are not discussing labor as a *measure* of value.) Labor has a role in determining price through straightforward economic mechanisms: the price received must cover labor costs, rents, and a margin of profit. As even Marx states in the Communist *Manifesto*, "But the price of a commodity...is equal to its cost of production." (That is, it equals the *whole* cost of production.)

However, it is ultimately the willingness of the customer to pay the required price (i.e., it is demand) that determines the actual market value (as opposed to natural price) of a commodity. That is, price is determined by supply and demand. Smith's theory of exchange value is a supply-and-demand theory more than it is a labor theory.

This is not to slight the role of labor in the classical view of economics. Wages, or labor costs, are one factor of the total cost of production, and usually a

major factor. The more labor a product requires for its production, and thus the higher the labor costs of producing it, the more must be received for it. That is, for a *successful* product, one whose production is a profitable (and thus continuing) enterprise, this is so. Thus, the more labor is expended, the higher the "value" of the product.

The difference is that classical theory supplies a coherent, *real-world* explanation of how and why labor determines value: a rational line of cause and effect is described. The medium of transmission, as it were, interjoining labor *per se* and value, is wages, i.e., the money paid for labor: labor costs. It works like this: as a matter of economic exigency, the entrepreneur desires that the simple mathematical relation, "A is greater than B," should obtain; that is, income should be greater than outgo. Labor costs are one sizable factor of the outgo. In simplest mathematical terms if A must exceed B, and labor costs help determine B, then labor costs determine also how great A must be. This is real-world economic reasoning, and it is how economics actually works. It does not assume, fatalistically or mystically, that "labor determines value" automatically, by transmutation; nor that the needed price will always by some fatalistic necessity be received. Rather, labor is important to value because labor *costs* help determine the cost of production.

A historic example can be quoted to show the reasonings of actual entrepreneurs. The following excerpt concerns the first cars produced by the Ford Motor Company.

> James Couzens had worked out the sums precisely. The basic machinery from the Dodge brothers [engines, transmissions and chassis] would cost $250. Body, wheels, and other parts came to an additional $134. Labor costs totaled $20, and he set aside $150 for selling costs, to include advertising, salaries, and commissions. This added up to a total expenditure of $554, and the car would be offered for sale at $750, leaving a margin of $196 per unit. Deduct $46 for contingencies, and that left a clear profit of $150 per car...
>
> By the end of March 1904, the Ford Motor Company had sold 658 automobiles with a margin over expenses of $95,851 – a profit per car of $150, as James Couzens had calculated. [11]

The point is not the accuracy of Couzins' calculations, but that labor, profits and rents are all factors of the final price. Of course, the reasonings of entrepreneurs are somewhat different from Smith's analysis; they break things down into items of separate expense to them, such as sub-contracted parts, advertising costs, and so on. Each of these elements could be split into one or

more of the three basic factors identified by Smith's analysis. But we do see profits separately identified and estimated. (Moreover, rents make an appearance, if only indirectly, in these remarks: "Albert Stretlow, the builder and landlord of the company's plant, paid in his $5,000 stake money... ." It appears that the rents in this example were paid for not by a fixed sum but by a part ownership, or a percentage of the "profits" – actually now a combination of the two elements, profits and rents.)

Note that the above is not a complete analysis of the product into the three basic elements of price specified by Smith. For one thing, there is a labor-cost component in the parts purchased from suppliers, those being the drive mechanism, body, wheels, and so on. The above is an analysis from the point of view of the entrepreneur, the Ford company, rather than from the point of view of an economist.

Thus classical theory offers a rational, and true-to-life, explanation of the exact role labor plays in determining exchange value. There is a coherent cause-and-effect mechanism, clearly elucidated.

Let us now turn to Marx's theory and again ask, How does labor become value? By what mechanism does it govern value? This time we get no rational answer, no cause-and-effect explanation.

How Labor Becomes Value For Marx

The problem is that we have Marx's abstract formulations proving that labor equates to value, but we don't have a detailed picture of the process involved. That is, we don't really know how labor converts to value, in practical terms.

Perhaps the problem needs to be made clearer. On one side of the equation there is exchange value – for that is the subject, at least at the outset of Marx's discussion. It is an open, observable phenomenon. Two people agree on a price; someone pays it, someone receives it, and the price can be observed and recorded. And the notable aspect of this process is that no one consciously pegs the price to the amount of "embodied labor." That is, exchange value is not, consciously at least, purposefully *set* equal to the embodied labor.

For one thing, that embodied labor is not known; it is at no time calculated, at least not directly – we never get a numerical figure for the labor invested in all the aspects and stages of a product, from the raw materials, to a pro-rated portion of the labor which produced the production equipment, to the labor directly invested in final assembly. No such figure serves as the basis of the calculations or the bargaining that go into fixing the price. On the surface, in the "phenomenal" or observable world, labor does not directly determine exchange

value. How then, on some other level, whether subconscious or metaphysical or mystical, does labor determine value?

There is one possibility. The producer of a good knows what he paid for his raw materials or semi-finished goods; and he knows the costs, including labor costs, which are added by his step in production. It may be said that through the intermediary of these costs of production, which (as Marx would have it) are solely costs of labor at each stage, the entire amount of labor embodied in producing a commodity is reflected in the selling price.

This is quite reasonable in one regard: the process it envisions actually occurs. All the accumulated costs of production, at each stage of production, are cumulative and are paid for in the final selling price. However, that is not the process Marx envisions; it is not his answer. He posits an autonomous process, with labor transmuting into value without the intermediation of human action or market forces. The previous version is the classical view, and so of course it must be dismissed as Marx's answer to how labor becomes value. (The classical view differs from Marx's in that the costs of production are not considered limited to labor costs alone; other factors enter in.)

Marx's answer

Let us look again at Marx's reasoning on the subject. One answer he gives may be called the pseudo-physics of value: labor is a physical substance which changes state or "congeals" into value, a physical attribute of the commodity.

This is Yahoo physics. Labor is an activity, not a substance; it isn't like steam or chicken fat, and it can neither condense nor congeal. And exchange value is a social phenomenon, not a substance possessed by a commodity, in and of itself, in a certain fixed quantity. Value is an aspect of exchange, that is, of an event; it says that two people (or, people generally) agree to exchange goods at a certain rate; exchange value is the proportion in which goods of various kinds are exchanged. It is not a substance contained *a priori* by a commodity.

So the pseudo-physical explanation is worthless. Marx would have it that the "value" of a commodity is fixed and pre-determined by the quantity of labor that has been invested in its production. But as far as can be observed, value is the result of the interaction of buyers and sellers on the open market, and the figure arrived at is determined by their reasonings, motivations and decisions. How can these two be reconciled? Is there some mystical principle at work which predestines the exchange value of a commodity always to be set at the foreordained necessary "value," irrespective of the conscious thoughts of the people involved? Some supernatural impulse which mysteriously moves men

without their knowledge? There can be no such impulse or principle, at least not within the realm of science or economics.

At any rate, pseudo-physics is not the answer. Another aspect of Marx's labor theory is his deductive proof, or we might say, the force of logical necessity. Marx proves labor must equate to value; for to say that two goods exchange at a certain proportion means automatically that there is some third "something" or substance which is present in them in equal amounts. This universal "common substance" is their real value – the proportions in which they are exchanged are just their "phenomenal" value. Having thus declared this "common substance" the preeminent element and having enthroned it as real "value," Marx has proved labor is value (labor being the only possible choice as the "common something").

Thus labor is proven to be value; the two are shown by force of logic to be logically equivalent. And while a deductive argument is conclusive (if the logic is accepted as valid), it may not be not very explanatory. The question still remains, How, in the real world, does "phenomenal" exchange value come to equal the transcendent inner, true value? If nobody even knows that "value," and if no one had even thought of it before Marx identified it as the key to exchange value, how does exchange value happen in every instance to equal the inner, transcendent value? It must be fate or intervention by supernatural powers, since no one consciously enforces it and there is no possible real-world mechanism which could make it come true.

(Note that, as stated previously, we have a confusion of entities, because Marx changes the subject, introducing a ringer: value now means, not exchange value, but value as defined by Marx, meaning *only* "congealed labor." The problem can thus be posed as, How does "Value" manifest itself in "phenomenal form" as exchange value? What is the mechanism there? The same objections apply to the question in this form.)

Another possible answer from Marx's labor theory is that value is labor by definition. This is not far removed from the previous viewpoint, of value as logically equivalent to labor. This approach doesn't supply us with a real-world explanation. Are we to believe exchange value is subject to force of logic or of definition – to words on a page, which no one involved may even have read? To reiterate: exchange value is the proportion in which various goods are exchanged; for shorthand, call it the price. Are we to understand that these prices adjust themselves somehow to correspond to the "embodied labor" in a product because it is written down somewhere that Marx has defined value as labor? That is the most superstitious and fatalistic viewpoint of all. Suppose Marx chose to settle an argument over whether tigers are indigenous to America by simply defining the word "tiger" to mean "a large, tawny-colored cat indigenous to America." Would tigers immediately spring up all across America, showing

that the real world is subject to Marx's powers of definition? A certain minimal understanding of what is fatalistic mysticism and what is science is required for reading Marx.

Marx's attempt to *define* the issue into submission is sophistry of the most feckless kind. And throughout his labor theory his reasoning is not scientific but metaphysical – philosophical and pre-scientific. In the Middle Ages there were scholars who reasoned as follows: the orbits of the planets must be perfect circles because God created the planets, and God is perfect, and the circle is the most perfect plane figure. It is not the individual points of such arguments that are most at fault; rather, it is the entire premise behind their reasoning. They assumed the results of their argumentation were conclusive, and that if they deduced that the orbits were circles, then they really *must be* circles: the real universe could not help itself, it had to fall in accord with their reasonings. They failed to appreciate the need actually to find out the facts about the orbits of planets and other scientific matters.

(In extenuation of them it might be said that, at the time they wrote they had no accurate means of actually finding out what the orbits were; their instruments were comparatively primitive. Moreover, certain of their premises, cynically cast away today, were valid. For instance, their belief that God created the universe was not necessarily the superstitious and unscientific notion it is condescendingly dismissed as today; and that premise at least was not the source of their error.)

In contrast to such methods, we may look at this quotation:

> Bacon is best described as an advocate of the experimental method in science – of the belief that natural knowledge was to be acquired neither from authority, however venerable, nor by syllogistic exercises, however subtle, but by paying attention to the evidence of the senses… [12]

(It should be noted that many authors give more of the credit for reviving science to Galileo than to Bacon. One author says, "Galileo was the first to establish a numerical law of the type of which almost all modern physics consists... Galileo may fairly be hailed as the founder of experimental physics."[13])

Besides relying almost exclusively on such "syllogistic exercises," Marx relies greatly on authority, with the difference that he is his own authority. The degree to which his text consists of mere blatant, dogmatic *pronouncements*, supported by nothing but the authority of his own words and the self-confident manner of his declarations, is remarkable.

It is also remarkable that so many people have accepted Marx's right to speak *ex cathedra* and to issue decrees. But perhaps the bold, assertive, never-uncertain

tones of the demagogue and agitator are more convincing for the naive than the more measured and qualified cadences of genuine science. It is human to desire a simple world, even if it is not the real one; and it is human to desire to commit oneself to a consuming, militant cause, even if the cause is nonsense. Thus demagogues, confident of their own infallible rightness, being "often in error but never in doubt," have a certain enduring appeal.

A further quotation may be pertinent to Marx's method, characterized as it is by his dependence on verbal argumentation rather than investigative science, the construction of theories "argued from notions and not from facts," and the issuing of pronouncements *ex cathedra* as if his own emphatic utterance were itself conclusive. Blaise Pascal made certain comments pertinent to some of these anti-rational, superstitious characteristics of Marx's method. He said,

> Matters of fact can only be proved by the senses. If the position which you maintain be true, show it, or else ask no man to believe it – that would be to no purpose. Not all the powers on earth can, by the force of authority, persuade us of a point of fact, any more than they can alter it; for nothing can make that to be not which really is...
>
> It was to...little purpose that you obtained against Galileo a decree from Rome, condemning his opinion respecting the motion of the earth. It will never be proved by such an argument as this that the earth remains stationary; and if it can be demonstrated by sure observation that it is the earth and not the sun that revolves, the efforts and arguments of all mankind put together will not hinder our planet from revolving, nor hinder themselves from revolving along with her. [14]

Pascal's insights have bearing on a method characterized by the fatalistic assumption that "Logic can compel the facts," by the use of verbal gymnastics, and by the adoption of the authoritative mode of seer and prophet, along with a heavy dose of bullying rhetoric. These cannot make an imagined world into reality, and they are no substitute for science. It is the measure of Marx's scientific illiteracy that he considered such a aggregate of specious methods to be science.

Summary of differences between the two labor theories

In sum then, Marx's "labor theory" bears only the most superficial resemblance to Smith's "labor theory." The sense in which each is a labor theory

is different; Smith envisions no such notion as the mechanistic reduction of labor into physical form as "value." Their entire methodologies and forms of reasoning are different. Smith's "labor theory" is a labor theory only in human-derived terms, in that labor is the most unvarying measure of what a thing costs us. Smith proceeds by seeking to establish an actual line of cause and effect with some observed human economic characteristic. He is thus as scientific as it is possible to be about a human-related, non-natural science realm like economics.

Marx treats the subject as a purely verbal, syllogistic exercise in which every result derived, by whatever distorted logic and based on whatever assumptions, is to be treated as definitive with regard to the real world. Smith's theory by contrast is an economic work: it does not purport to be an "explanation of everything," an all- encompassing theory, like Marx's, which has all the typical characteristics of "paranoid conspiracy theories" or ideologies. Smith writes as a scientist or investigator of the facts, Marx as a medieval Scholastic.

Actually, Smith's theory is more a "labor, rents and profits" theory than a "labor theory." And ultimately, as a theory of what determines market price, his is a "supply-and-demand" theory, not a labor theory at all.

Notes

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