An Austrian Paradox: The Contribution of the Austrian School to the Development of Marx's Labour Theory of Value

V.S. Afanasyev*

***Abstract*:** Ever since the origin of the Austrian School in the latter part of the nineteenth century, a paradox has existed in its relation to Marx's economic theory.[1] Ironically, even though the school led an irreconcilable ideological fight against Marx's economic theory and particularly against his labour theory of value, its adherents unknowingly advanced research on its central category, that is, 'socially necessary labour'. In this article, it is posited that the scientific interrelation between these schools is based on how they reveal the structure of the process of forming socially necessary labour. This argument contrasts with numerous prior attempts, over more than a century, to understand the relations between these two antagonistic schools of thought (Mill 1848; Marshall 1890; Frunk 1900; Dmitriev 1904 [1974]; Tugan-Baranovskii 1909). To make the Austrian paradox clear, we start off by examining the evolution of the category of socially necessary labour, as well as its content. Classical bourgeois political economists who preceded Marx made some important steps forward in initiating research into this problem. However, they were unable to develop a category of socially necessary labour and to reveal a process for its formation.

To the Advanced Austrian School

1 The Formation of a Category of 'Socially Necessary Labour'

William Petty (1623-1687), one of the founders of the English classical school, addressed the problem of differentiating social and individual labour in an empirical way. In *A Treatise of Tax & Contributions* (1662), Petty wrote: 'if the corn that feedeth London….be brought forty miles thither, then the corn grown within one mile of London shall have added unto its natural price, so much as the charge of bringing it thirty nine miles doth amount to' (Petty 1662, Chapter 5, paragraph 5). He tried to outline the distinction between social and individual labour. In this case the labour that manufactured the bulk of the corn that had been grown forty miles from London's population was perceived as socially necessary labour because it determined the market price of corn. The labour growing the corn within a mile of London played the role of individual labour.

Adam Smith (1723-1790), a representative of the developed stage of the English classical school, came nearer to understanding that the quantity of value of a good was determined by the quantity of labour that was socially required for its production (that is, determined by its social value) and not by the real labour inputs by the different commodity producers, that is, individual value:

> It is natural that what is *usually* the produce of two days' or two hours' labour should be worth double of what is *usually* the produce of one day's or one hour's labour. (Smith 1776 [1976], p. 65)

Here Smith touched on a problem that had a direct link to market mechanisms, the problem of distinguishing the individual from the social value of a commodity, that determine the individual price and market price, respectively.

Different commodity producers expend different amounts of labour, different *individual values*, to produce identical commodities. However, they realise their commodities for a single market price, which expresses the social value of the commodities. The commodity producers whose individual values of commodities are higher than this single market price bear losses and are forced to turn their attention to the production of profitable commodities instead. Otherwise they cease to be competitive and are forced to stop producing. On the contrary, the commodity producers whose expenditures per unit of a commodity are lower than the single market price prosper and flourish. This regulation of the market, which forces effective management and adapts production to fluctuations in demand, underlies Smith's concept of market competition's 'invisible hand'.

David Ricardo (1772-1823), the last great representative of the English classical school, took an even more significant step forward in handling this dilemma. While studying the law of value, this contemporary of the Industrial Revolution faced a conundrum. What are the labour inputs that determine the value of identical commodities produced in differing enterprises, that is, in small workshops of independent craftsmen compared to products from factories, manufacturers utilising machinery, where labour productivity differs greatly? While trying to piece this puzzle together, Ricardo came to a conclusion – which also later played a vital role in Marx's conception of the law of value – that is, that the value of goods is determined by the labour that is required for the production of the commodity under certain conditions and not by the labour that was really exerted by numerous producers to produce the commodity. Ricardo developed an argument that the social value of commodities was determined by the labour inputs under the worst industrial conditions.

In his main work, *The Principles of Political Economy and Taxation* (1817), Ricardo wrote:

> The exchangeable value of all commodities, whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated….by the greater quantity of labour necessarily bestowed on their production by those….who continue to produce them under the most unfavorable circumstances….under which the quantity of produce required renders it necessary to carry on the production. (Ricardo 1817 [1955], p. 37)

From this we see that Ricardo clearly distinguished individual labour inputs, the inputs of each separate producer and which *do not* determine the value of any given commodity, from socially necessary labour inputs, which act as a regulator of relations of exchange and determine the value of commodities. This distinction is critical in understanding the essence of the law of value and therefore the regulation of the market.

Nevertheless, Ricardo failed to solve the problem of socially necessary labour. Firstly, he made a quantitative error in the interpretation of this obstacle, by bringing socially necessary labour together with labour performed under the worst industrial conditions. If implemented, this may have meant a break in the capitalist economy as a whole. In reality, if the values of commodities were determined by labour inputs under the worst industrial conditions, then the law of the market, which is a prime feature of the capitalist economy, would not operate. There would not be any economic force to increase efficient production because all commodity

producers would not only have their production expenses reimbursed, but would also profit from inefficiencies. None of them would become bankrupt. Thus the whole capitalist society would be in danger. If labour inputs under the worst industrial conditions determined prices, then scientific and technological progress would slow and labour productivity would be dampened. Secondly, Ricardo missed the qualitative distinction of socially necessary labour. In fact, from his point of view, socially necessary labour was just one variety of individual labour, that is, that produced under the worst industrial conditions.

Antoine Augustine Cournot (1801-1877), a prominent French economist, and one of the predecessors of the neoclassical school, made an important contribution to addressing the problem of socially necessary labour in his work, *Studies into the Mathematical Principles of the Theory of Wealth* (Cournot 1838). He showed that there was a tendency for market competition to form a single price for identical commodities produced in different conditions with different production costs and originally offered to buyers at different individual prices. What exactly was this single market price for identical commodities? It was the socially necessary labour in terms of the money received for the commodity. In defining the notion of a market, Cournot wrote:

> Economists understand by the term Market not any particular market place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality and quickly. (Cited by Marshall 1890 [1927], p. 324)

Alfred Marshall (1842-1924) pointed out that the degree to which this tendency was realised was a function or measure of a market's level of perfection (*ibid*., p. 325). Therefore different prices for identical commodities were evidence of a lack of market development. Cournot revealed a very real and highly contradictory regulation within the market that forced a single price for identical goods.

Thus we return to Karl Marx and his achievement, which was that he clearly differentiated the individual value from the social value of commodities through the categories of political economy. By 'individual values' he meant the different labour inputs for the production of commodities in distinct enterprises. There are strong differences between investments in various enterprises that produce identical commodities because they employ different means of production, technology, industrial know-how, tools, machinery and so on. Industrial labour inputs are at the base of the numerous individual prices of identical commodities produced by numerous producers who enter the market with their produce. However, these commodities are not sold, as a rule, for individual prices determined by individual labour inputs, but are sold under free competition for market prices that reflect the dominant conditions of their production. Market prices of commodities express their social value in terms of money, that is, the amount of social labour consumed in the process of producing the commodities. In this way, Marx revealed a quantitatively distinct 'socially necessary labour'.

Marx arrived at the conclusion that the value of commodities decreases as the productivity of social labour increases, causing a decrease in the prices of the commodities. Figure 1 shows trends in retail prices in the USA, which went through a process of industrialisation in the nineteenth century similar to the European countries. This figure shows that prices have tended to decrease, a tendency interrupted by periods of war (such as the Napoleonic War, the American Civil War and so on).

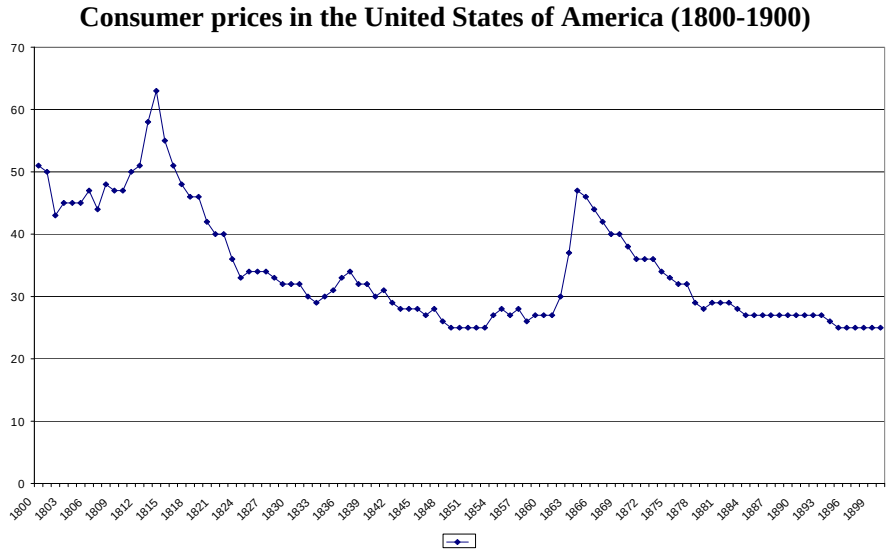

Figure 1. Source: *Historical Statistics of The United States Colonial Times to 1970*. US Department of Commerce, Bureau of the Census. Kraus International Publications, NY, 1984, p. 211.

Simultaneously Marx elaborated on the twofold character of labour, concrete labour and abstract labour, which revealed a qualitative feature of labour as the source of a commodity's value. Marx showed that the source of a commodity's value is abstract labour and that concrete labour is a source of a commodity's use value. Therefore the twofold character of labour determines the twofold character of a produced commodity, which is a contradictory unity of use value and value.

It is imperative to understand that the classical school of Adam Smith and David Ricardo, as well as Karl Marx, examined the problem of the formation of socially necessary labour strictly from the point of view of the commodity producers, omitting any special analysis of the buyer's role in the process. Of course, they always referred to labour inputs for bought commodities, which have a use value and satisfy the buyer's needs. David Ricardo believed that the utility of a commodity was neither a source nor a measure of its value, though it was an essential condition for forming its value. He wrote:

> Utility is certainly the foundation of value, but the degree of utility can never be the measure by which to estimate value. A commodity difficult of production will always be more valuable than one which is easily produced although all men should agree that the latter is more useful than the former. (Ricardo 1952, p. 247)

This same thought runs through his main economic work, *The Principles of a Political Economy and Taxation* (1817): 'Utility….is not the measure of exchangeable value, although it is absolutely essential to it' (Ricardo 1817 [1955], p. 5).

The Austrian school examined the same dilemma and this gave rise to a paradox, namely that Marx's labour theory of value, which essentially concerned socially necessary labour as the source of a commodity's social value, was re-developed – under new, post-Industrial Revolution conditions – not by Marxists but by the antagonists of Marx's economic theory, that is, by Austrian school theorists who, nevertheless, continued a struggle against Marx's theory.

Two circumstances specific to the last quarter of the nineteenth century played a crucial role. Firstly, the end of the Industrial Revolution in the developed countries was associated with the conversion of a sellers' market into a buyers' market. This substantial rise in the buyers' roles in the process of forming socially necessary labour created a need for its theoretical examination. Secondly, the development of a labour movement and the wide dissemination of Marx's revolutionary theory, which was based on the labour theory of value, set the bourgeois economists a difficult propagandistic task. Developments around the same time as the Paris Commune, in 1871, contributed to ideology winning a victory over science in bourgeois economic theory. As a result, the Austrian school began to contradict Marx's labour theory of value, neither understanding its main position nor differentiating individual labour from social labour.[2] Theorists of this school perceived the category of subjective value as an 'effective tool' against labour, as the only source of a commodity's value, and began developing this category of subjective value in every possible way. Clearly they did not understand that both subjective value and the individual labour of commodity producers together formed socially necessary labour, the essence of labour value, whose existence they in fact denied.

2 Austrian School Studies of Buyers and Socially Necessary Labour

It is necessary to discuss the definition of two terms before considering the essential problem of the interrelation of the labour theory of value and the theory of the Austrian school.

Firstly, in regard to the category of 'commodity' in Marx's theory and the category of 'good' in the Austrian school's theory, we notice that these two categories have substantially different substances. A commodity is treated by Marx as a product of labour, which is meant for sale and further consumption, that is, as an historical and social phenomenon. The Austrian school's 'good' is a natural and eternal phenomenon meant for consumption (personal and industrial). Of course, a 'good' can be an object of purchase and sale. However, even in this case, the Austrian achool's 'good' is still only a 'utility' that can satisfy a need, which is subjectively evaluated by buyers as well as by sellers. From their point of view this subjective evaluation determines the prices of goods sold and purchased. This is unscientific because it obviously contradicts a mass of data from economic practice. For example, it is impossible to explain either the main nineteenth-century tendency of price reduction (Figure 1) or the gigantic rise in the monopolisation of capital and production between 1900 and 2004 (Figure 2) from the point of view of the subjective evaluations of goods' utilities.

The position of the Austrian school is clearly ideological in character. It is directed at obscuring the determining role of labour spent in producing 'goods', which is the only source of value with respect to the riches of bourgeois society. Meanwhile, from the point of view of geniuses of economic science – Smith, Marx and Keynes – the economy of society is nothing but functioning social labour armed with knowledge, means of production and natural resources. Keynes, for example, wrote: 'I sympathise….with the pre-classical doctrine that everything is produced by labour'. He added: 'It is preferable to regard labour….as the sole factor of production, operating in a given environment of technique, natural resources, capital equipment and effective demand' (Keynes 1936, pp. 213-14)

Consumer prices in the United States of America (1982-1984=100; 1900-2004)

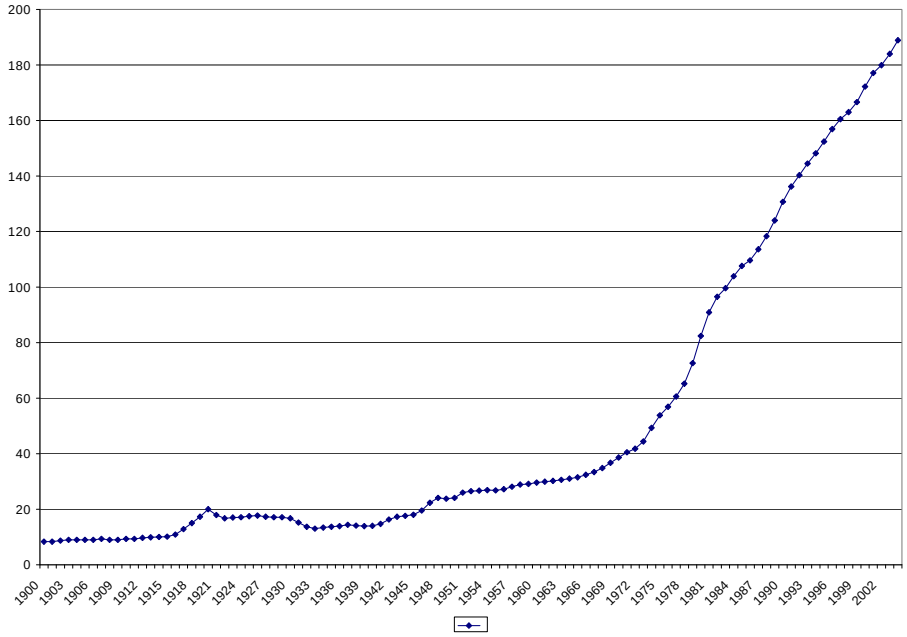

Figure 2. Source: *Historical Statistics of The United States Colonial Times to 1970*. US Department of Commerce, Bureau of the Census, Kraus International Publications, NY, 1984, p. 211; *Statistical Abstract of the United States*, 1999. *The National Data Book*. US Department of Commerce, p. 882; *Economic Indicators*. July 2005, United States Government Printing Office. Washington, 2005, p. 23.

According to Marx's theory, a 'commodity' not only has utility, which satisfies a need, its 'use value', a term introduced by Smith (1776), but also has 'value'. The quantity of the latter, socially necessary labour, spent on producing a commodity ultimately determines the market prices of commodities. That is why, with increases in commodities manufactured per minute and decreases in the socially necessary labour inputs, commodities' prices fall, and vice versa (Figure 1).

Therefore, in Marx's interpretation, commodities have a dual nature. They are produced as a contradictory unity of use value and social value. Because economic processes and capitalist phenomena have featured dual commodity forms, they are, of necessity, dual as well. For example, a salary can be nominal and real, the market correlates demand and supply, and wear and tear of fixed capital can be physical and moral, and so on.[3] This is extraordinarily important, because this approach opens new horizons for economic science. However, it is extremely poorly examined in world economic literature.

Secondly, with respect to the 'individual' and 'social value' of a commodity, the former relates to the labour expended in commodity production at each separate enterprise, both the direct labour expended and the labour embodied in the means of production. This determines the individual commodity prices of separate commodity producers as they enter the market. Of course these prices for identical commodities are different initially because they reflect the different conditions of production of the numerous commodity producers. Later, under the influence of competition, these prices even out into a single market price for identical commodities, which reflects the predominant conditions of production.

These monetary prices reflect the social value of these commodities. From this it follows that the 'social and public value of commodities' (which are equal) are social labour inputs, that is, inputs that reflect the dominant conditions of production.

As antagonists of Marx's labour theory of value, the Austrian school did not and could not use a category of socially necessary labour because it did not agree with their ideology. In their struggle against the labour theory of value the Austrian economists opposed buyers' needs to labour inputs and examined buyers' influences on the formation of prices. However, unconsciously, in practice, the Austrian theorists examined an important factor in the formation of socially necessary labour, that is, needs. This fact is elaborated in the six points that follow.

a. Utility

Carl Menger's teaching about utility and goods played an important part in the Austrian school's study of the problem of socially necessary labour. In practice Menger attempted to specify a concept of use value developed by the classical school and by Marxists. However, he rejected the category of 'use value' and substituted the category of 'utility', the economic content of which can be equated with use value. Menger wrote: 'Things that can be placed in a causal connection with the satisfaction of human needs we term useful things' (Menger 1871 [1981], p. 52).

In Menger's interpretation, utility included two well-known features of the labour theory of value: human need and the characteristics of an object/service to satisfy this need. Thus utility (or use value) had two poles and changes in either pole lead to changes in utility (use value).

However, according to Menger's opinion, it was not yet a 'good'. To transform a useful thing into a good, he highlighted the need to add two more conditions. Firstly, people should know that the thing is capable of being brought into a casual connection with the satisfaction of their needs; secondly, there must be a 'command of the thing sufficient to direct it to the satisfaction of the need' (*ibid*., p. 52) Therefore the concrete definition of the Austrian school's concept of 'use value' interprets a good not in the abstract but as a real possibility to satisfy human needs because a consumer appreciates, and has taken possession of, its qualities, functions and capabilities.

In fact the main conditions under which individual labour creating use value can be transformed into socially necessary labour, which is a source of value of the given good, were described in Menger's concept of a commodity. Thus Menger, in fact, shows that a buyer or consumer decides whether the labour consumed in the production of a commodity transforms it into socially necessary labour or not.

Menger self-consciously considered four conditions under which 'a thing loses its good-character', that is, practically ceases to be an embodiment of socially necessary labour:

i) '….if, owing to a change in human needs, the particular needs disappear, that the thing is capable of satisfying' (*ibid*., p. 52). The first feature of a good is the presence of a corresponding human need, which may be satisfied with the given 'thing'. It is common knowledge that if a need for a commodity disappears, the labour that was utilised for its production ceases to be socially necessary labour; the labour does not

create use value and, consequently, does not create a commodity with any value.

The significance of need as a factor in forming socially necessary labour developed with the scientific-technological revolution. In these conditions commodities with qualitatively new consumer characteristics appeared in the market and made other commodities, which no longer fully satisfied human needs, obsolete or not marketable.

ii) 'Whenever the capacity of the thing to be placed in a causal connection with his satisfaction of human needs is lost as the result of a change in its own properties' (*ibid*., p. 53). This refers not only to commodities that become damaged in transit or storage, but also through production, for example, of low quality goods which fail to meet seasonal and other market demands. Such changes in 'properties' mean that they cease to be use values and the labour exerted in their production does not become transformed into socially necessary labour.

iii) 'If knowledge of the causal connection between the thing and the satisfaction of human needs disappears' (*ibid*., p. 53). Labour spent on producing a commodity is not socially necessary labour if a buyer does not know that this commodity can satisfy his/her needs. Consumers rarely, if ever, purchase such commodities; thus the growth of the advertising industry. This condition is significant today, as numerous highly technological commodities enter the market, the consumption of which is reliant not only on consumer skills (that is, knowledge of methods and rules of usage) but also on the capacities of the commodities to integrate software programs as offered in the market place automatically or with the appropriate prompts.

iv) 'If men lose command of it so completely that they can no longer apply it directly to the satisfaction of their needs, and have no means of re-establishing their power to do so' (*ibid*., p. 53). Labour consumed in a good's production is not socially necessary labour if the buyer cannot purchase the good and especially if s/he does not have the means (money).

Finally, in teachings devoted to the transformation of a useful thing into a good, Menger fully depicts all demands that consumers make in terms of the use value of a commodity and, therefore, of the labour of their producers. In fact, meeting buyers' demands transforms the individual labour spent in producing commodities into socially necessary labour, the source of their value.

b. Individual Labour

On behalf of their founder, the Austrian school illustrated Menger's arguments against Marx's labour theory of value by insisting that 'the quantities of labour or of other means of production applied to its production cannot….be the determining factors in the value of good' (*ibid*., pp. 140-7).

Remember that Karl Marx clearly differentiated individual labour from socially necessary labour, and when he talked about the source of the social value of a commodity and the measure of exchange, he always highlighted social labour inputs and not individual labour inputs. On the contrary, Menger struggled against Marx's labour theory of value purely to depict and discuss individual labour inputs, because he did not acknowledge any other labour inputs except for those he observed. Nevertheless, stating that the labour consumed in the production of any

commodity (individual labour) 'does not define a measure of value for a good', Menger took the same position as Marx had, in his labour theory of value.

c. Subjective Value

The concept of the 'subjective value' of a good played a central role in the theoretical constructions of the Austrian school. Its theorists believed that this tool would help them disprove Marx's labour theory of value. The subjective theory of value stated that the foundation of price is not labour but a certain 'subjective value of a good' (Eugen von Böhm-Bawerk).

What is the 'subjective value of a good?' Menger elaborated the subjective evaluation of utility of a commodity from the point of view of its meaningfulness for the satisfaction of needs of a buyer or consumer. In his *Principle of Economics* (1871), he wrote that: 'Value is thus the importance that individual goods or quantities of goods attain for us because we are conscious of being dependent on command of them for the satisfaction of our needs' (*ibid*., p. 115).

Therefore the 'subjective value of a good' was presented as a purely subjective fact, as a phenomenon of consciousness of a managing individual. Menger emphasised that:

> Value is thus nothing inherent in goods, no property of them, nor an independent thing existing by itself. It is a judgment economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well being. Hence value does not exist outside the consciousness of men. (*ibid*., pp. 120-1).

Eugen von Böhm-Bawerk, one of Menger's followers, takes a similar position on defining the 'value of a good' in his work, *Foundations of the Theory of Value of Economic Goods* (1886). He writes: 'We mean by value, an importance that is acquired by material goods or a complex of material goods as acknowledged necessary condition for prosperity of an individual'.

However, attempts by the Austrian school to refute the labour theory of value using concepts of subjective value produced a startling result that has not been recognised until now either by the school's followers – by whatever 'intelligence' they had – or by adherents to Marx's theory. The Austrian school's attempts to reject Marx's labour theory of value, by providing evidence of subjective value, were, in fact, conclusive evidence of the scientific character of Marx's labour theory of value! They show that Marx's work on socially necessary labour remained beyond question, even under new economic conditions, when the varying needs of buyers or consumers become an active factor in economic development.

The fact remains that the influence of buyers and their needs on the process of forming socially necessary labour is mostly shown in a case when buyers refuse to purchase a commodity because they do not need it. In terms of economics, this refusal means that buyers do not recognise it as a concrete form of labour inputs by commodity producers. In this instance, a commodity has no use value and therefore it has no social value and the labour that was spent in its production is not socially necessary labour.

Let us hypothesise that a buyer's needs have changed. The commodity that s/he rejected before becomes vitally important to her/him. In terms of economics, it means that the buyers now consider the associated labour inputs of commodity producers as useful. Under changed conditions, the same commodity, which had been perceived as unmarketable, now acquires both *use value* and value. For

example, Akio Morita (one of the founders of Sony), describes this 'influence' or 'effect' a buyer has on a commodity, such as the first tape recorders, in his book, *Made in Japan* (Morita 1986).

The circumstances in which a buyer decides if s/he will purchase something or not is irrefutable evidence of the buyer's participation in the process of forming socially necessary labour. It means that factors that form socially necessary labour are dual, as are all economic phenomena in capitalism. On the one hand there are the labour inputs of commodity producers in a useful form, and on the other hand there are the actions of buyers who evaluate the labour inputs from the point of view of their needs and purchasing capacity, buyers who choose whether to buy or not to buy the goods.

Therefore it is necessary to admonish those who doubt that there is no other way of socially acknowledging a commodity, and therefore labour inputs, except through buyers or consumers acquiring a commodity in the market-place.

Of course, the characteristic of being a useful form of expended labour is not only apparent from the moment that labour is taken into account, in the process of its social acknowledgment in the market. There is a strong correlation too between the volume of produced commodities and the volume of needs for these commodities. If the quantity of produced commodities exceeds the volume of need for them, however useful they are, they will not have use value for consumers and therefore will not have social value.

The quality of a produced commodity, which is evidence of the quality of labour inputs, also plays a vital part in the process of social acknowledgement of labour, and its result by consumers. No less important in this acknowledgement is the quantity of labour in,puts per unit of commodity, which appears in the price level. Surplus stocks of commodities in trade and manufacturing, and enormous shopping malls with luxury commodities but with a dearth of consumers, confirm this fact.

All these circumstances summarise the Austrian school's category of subjective value. The category of a subjective 'value of a good', which contains consumers' subjective appraisals of the different aspects of utility of a good from the point of view of satisfying needs, is nothing but a characteristic of socially necessary labour from the buyer's or consumer's perspective.

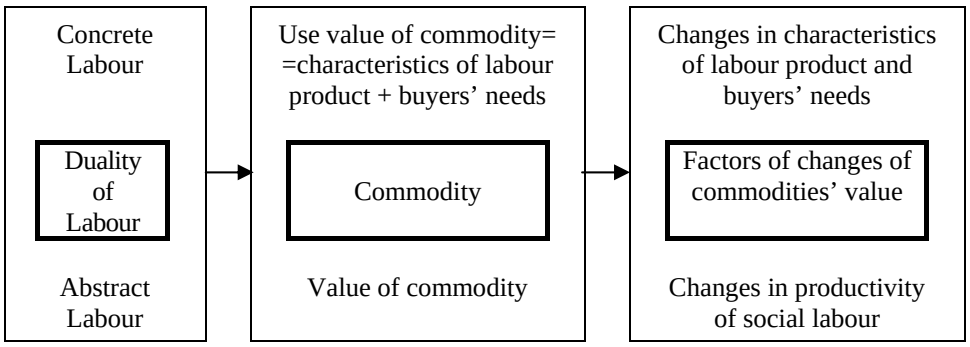

Figure 3: Marx's Duality of Factors Involved in Changes in Commodity Values

In reality, the Austrian school studies the process of the pricing of a commodity through the prism of consumers' needs and the changes that are undergone by the volume and structure of needs, which is one of the main poles of use value of a commodity, coupled with its characteristics as a product of labour. Consumers' needs affect the use value of a commodity and the conditions of the

labour involved in its production affects its value, because the social value of commodities depends on the extent of their use value. Also, from Marx's point of view, the use value of a commodity and a commodity's sale were perceived as an indispensable condition of the process of forming socially necessary labour, which, in its turn, determined the social value of commodities. Thus Marx recognised the duality of the process of the forming of socially necessary labour in which both the labour of commodity producers and the needs of buyers participate, though this position was not worked out in detail in his theory. Figure 3 illustrates the duality of factors involved in changes in a commodity's social values, according to Marx's theoretical framework.

The Austrian school, which struggled and continues to wrestle so obstinately with Marx's labour theory of value, unwittingly contributed to the development of the latter by highlighting the role of needs in the process of forming the subjective value of a good. The main methodological principles of the Austrian school – the microeconomic approach to phenomena, subjectivism, individualism, emphasis on psychology, and of course, the superiority of circulation and consumption over production – are all oriented at studying and understanding the role of buyers or consumers in the process of forming socially necessary labour. At first glance, they appear completely inadequate for studying regularities of commodity (money) relations, which are social in their essence and have an objective foundation. It seems that this method is not appropriate for discussing and examining social and economic processes. However, a role of the method applied by the Austrian school becomes clearer if we take into account that this school only studies one half of the equation; it only examines the buyers' participation in the pricing process that forms socially necessary labour. Buyers make economic decisions individually in the market, taking into account the personal needs of their 'isolated' households and extending past the saturation of their subjective needs, under the influence of psychological factors. Buyers deal directly with phenomena of circulation and consumption but not with production. Nevertheless, by their actions, together with commodity producers, they transform the individual values of commodities into social values. However, they neither consciously perceive individual and social labour inputs nor execute operations in terms of utility, need, subjective value and the extent of the saturation of needs.

The Austrian school only describes these external forms of economic processes but does not understand their real economic content, particularly the fact that they prove that buyers participate in forming socially necessary labour, which determines the social value of commodities.

The concept of subjective value of the Austrian school was an attempt to give a deep analysis of commodity relations from the position of determining the role of buyers in the process of pricing, and neglecting the labour theory of value. That is why it could not exceed the limits of connections between the needs of a man or woman and the characteristics of things. That was the problem: being limited by the category of use value meant a one-sided interpretation of the pricing problem.

d. Marginal Utility

Teachings on the marginal utility of goods, that is, the surplus of utility as a result of increasing quantities of goods, hold an important place in the theory of the Austrian school. Friedrich von Wieser (1851-1926), a prominent Austrian theorist, wrote that the value of marginal utility is the least value of all the possible cases of

usage of a good (Wieser 1914, paragraph 16). It satisfies a less important need for an economic individual as this type of goods. That is why marginal utility is perceived as some kind of measure of utility of goods, because the loss of just one of the goods that satisfies a more important need leads to a situation where the lost good is replaced by a good that has less utility. Wieser illustrated daily experience repeated in millions of cases to prove that consumers buy all units of stock taking into account marginal utility (*ibid*., paragraph 17). As a result, the value of identical economic goods entered into the imagination of an economic individual as a uniform expression, which is equal to the value of the least valuable good for him or her. Wieser named the dependence of value on each unit of stock of an economic good from marginal utility the law of marginal utility. He wrote that the main law of estimating utility required that all units of stock were evaluated in proportion with marginal utility (*ibid*., paragraph 16).

The concept of marginal utility concretises the description of utility. It expresses dependence between the extent of saturation of a buyer's need for the given economic good and the demand for the commodity. As more economic goods are available, their marginal utility diminishes along with their subjective value. In the given concept of subjective psychological interpretation of a consumer, it is shown objectively, and this demonstrates a reverse dependence between quantities of commodities, the productivity of social labour and their social value.

Therefore, as far as a term for marginal utility is introduced, we find that the introduction of socially necessary labour is *bona fide*. Now the game changes: the criterion is not only a buyer's need for a produced commodity, but also the extent of importance of this need, which may have both qualitative and quantitative attributes. In this context the greater importance of the need that labour can satisfy, the larger is the marginal utility, as it is more socially necessary labour.

e. Menger's Scale and Complementary Goods

The next step taken by theorists of the Austrian school to concretise the category of socially necessary labour was introduced in their elaboration of a systematic approach to the problem of a buyer's needs, which was expressed in Menger's scale. An issue arose with respect to the extent of satisfaction involved with the numerous needs of economic individuals, that is, complex packages of needs. In Menger's analysis of a system of needs, he started from the basis of decreasing utility of a good in the process of needs saturation. He highlighted the fact that different acts of saturating human needs have vastly different meanings, say, in the case of food. As far as needs for security are satisfied, Menger added:

> Consumption exceeding this amount, again up to a certain point, has the importance of preserving his health….Consumption extending beyond even this point has merely the importance – as observation shows – of a progressively weaker pleasure, until it finally reaches a certain limit at which satisfaction of the need for food is so complete that every further intake of food contributes neither to the maintenance of life nor to the preservation of health – nor does it even give pleasure to the consumer, becoming first a matter of indifference to him, eventually a cause of pain, a danger to health, and finally a danger to life itself. (Menger 1871 [1981], p. 124)

Menger expressed the decreasing utility of food in the form of symbolic numerical values (10-0) in a vertical line and situated the 'gradually decreasing importance of the remaining satisfactions' (food, clothes, shoes, tobacco and so on),

also in a form of symbolic numerical values (0-10) in a horizontal line (*ibid*., pp. 125-6). When dissected, Menger's scale shows that, in spite of considerable qualitative differences in needs, they are in aggregate a kind of integrated system within which comparison, commensurability and some type of substitution is constantly taking place. From time to time, certain needs come first and are foremost, becoming immediate needs depending on the level of satisfaction that is reached, not only of the given needs but extending to saturation of other needs, and therefore the condition of the entire system of satisfaction of needs.

Theorists of the Austrian school also elaborated a systemic problem of needs satisfaction in the concept of complementary goods (*ibid*., p. 157). It is a well-known fact that complementary goods are goods that supplement each other. For example, a vehicle does not function without fuel. It is not difficult to understand that the aggregate of means of production in the whole production and the trade chains, which are necessary for production and the fulfilment or realisation of the given commodity, appear as complementary goods, and means of production of a certain commodity, such as bread. It is not just corn itself, but stores, means of transportation, mills which transform corn into flour, necessary containers and power grids, returning again to the means of transportation, bakeries, with all the essential industrial equipment, and so forth.

Trading companies, which complete this chain by taking the final product to market, have engineered entire economies with a commodity or good, and have surrounded that good with all the necessary services, equipment and people to run an entire micro-economic system around it. A complementary character of the means of production states that a need in a certain commodity, in fact, is a need in all totality of the means of production, delivery and the realisation or completion of the given commodity. Accordingly, changes in the need for a given commodity lead to changes in the totality of means of production and trade, necessary for its production and realisation, that in turn cause corresponding changes in both the quantity and content of socially necessary labour.

f. Value of Goods of Lower and Higher Order

The principles of the Austrian school which express the value of the means of production, using the terminology of this school, 'goods of a higher order' through the value of commodities of consumption 'goods of lower order', have an important practical and theoretical meaning with respect to the process of concretising the category of socially necessary labour. Menger wrote that the:

> value of goods of a lower order cannot….be determined by the value of goods of higher order that were employed in their production. On the contrary, it is evident that the value of goods of higher order is always and without exceptions determined by value of goods of lower order in whose production they serve. (*ibid*., pp. 149-50)

At first glance, this statement, which is clearly made against the thesis of the labour theory of value on transferring the value of the means of production in producing commodities with their aid, looks quite strange. Everyone, including opponents of the labour theory of value, knows only too well that expenses on means of production are part of the overall costs of commodities, which are produced with their help, and are in fact an important factor that affects the prices of commodities. Meanwhile, the thesis on the dependence of the value of goods of a higher order on the value of goods of a lower order is not only correct and is in

full accordance with the labour theory of value, but can be perceived as a step in its concretisation.

Everything returns to its place if we approach the question from the point of view of the delimitation of the individual and social value of commodities. The fact that expenses on the means of production become part of the expenses of commodities which are produced through their use, reflects directly only in the forming of individual value of commodity, that are expenses of materialised labour in the production of goods in one separate enterprise. Meanwhile, the question of which part of these expenses will really become part of the social value of a commodity and affect its price is decided outside of this enterprise and an answer appears only in the market when this commodity is realised, that is, as a total calculation of expended live and materialised labour necessary in the production of commodities of the given type. It is only in the market-place that we see a quantity of the social value of a commodity and its attributed characteristics of value used in the process of its production and means of production. For example, if a product does not sell because it has no 'value' for consumers, the means of production used in the process of its production have no value either.

3 Conclusion

The analysis of concepts from the Austrian school offers the basis for solving the problematic relationship between the labour theory of value and the theory of subjective value. In reality there are strong dual processes that form socially necessary labour. In fact, in these processes not only individual labour participates in the production of commodities, but also the activities of buyers in the market. This point is neglected by those economists who fail to apply the methods of economic duality (Afanasyev 2005).

In the immediate relationship, the individual labour expended for a commodity's production and the buyer's needs oppose each other, while their connection forms socially necessary labour, and reveals their unity: both seem to be objectively conditioned parties, but they are intimately related in this process.

Socially necessary labour, which determines the social value of commodities, is a direct result of the interaction between the individual labour of a commodity's producer and a buyer's appraisal of the produced commodity from the perspective of satisfying needs. In this approach subjective value and marginal utility are organically integrated into the labour theory of value, not undermining it but rather making it considerably more powerful.

It is evident that the labour theory of value has this new proof of its scientific validity. Theorists of the Austrian school supplemented and developed Marx's labour theory by examining the role of consumers in the formation of socially necessary labour while proving, in full accordance with Marx's theory, that individual labour expended for the production of a commodity does *not* determine its value. By default, the concepts of the Austrian school, such as utility and goods, subjective value and marginal utility, complementary goods, goods of higher and lower order and how they correlate, not only fail to disprove the concept of the labour theory of value but substantiate its definitiveness.

Simultaneously, the development of the labour theory of value receives a powerful boost in assimilating into its understandings of socially necessary labour an enormous quantity of theoretical material stored by the Austrian school, for

example, its concepts of marginal utility and subjective value. The crucial starting point for Marx's elaboration of his thesis was his critical understanding of the theory of bourgeois political economists and, first of all, David Ricardo's concepts. When Lenin elaborated on his theory of imperialism, he referred to the work of the bourgeois scientist J.A. Hobson (Hobson 1902). On the first page of *Imperialism, the Highest Stage of Capitalism* (1917) Lenin characterised Hobson's thesis as a 'very good and thorough description of the main economic and political particularities of imperialism'.

The concepts of the Austrian school, such as utility and goods, subjective value and marginal utility, complementary goods, and goods of higher and lower orders, examine the role of buyers in the process of forming socially necessary labour. Understanding such concepts can contribute to the labour theory of value, even though the opponents who created these concepts did not understand the distinction between social and individual labour. While these concepts were developed to strike a heavy blow against the labour theory of value, instead they offer analyses that support socially necessary labour.

In this perspective, the neoclassical school – which disapproved of the labour theory of value and drew economic theory together through a geometric interpretation of the functional connections of the economic process – loses its already scant theoretical foundation, resulting in the prospect of a unified scientific political economy based firmly in the theory and method of the labour theory of value.

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* A.Shagin@ru.net.

Notes

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2 Eugen von Böhm-Bawerk, stating Marx's theory, mentioned this difference in his *Zum Abschluss des Marxschen Systems* (1909) *Kapitel I*, but the Austrian school did not apply it in investigating the role of buyers in price formation.

3 See V. Afanasyev *et al*. (1986, chapters 1-8); Afanasyev and Lantsov (1986); Afanasyev (2005).

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