skills? Were some labour processes not more detailed or complex than others? This problem was 'solved' by adopting an average market wage of sixpence an hour and then allowing for differences in skill according to differentials prevailing in the capitalist labour market. Yet this was a tacit admission that they needed that 'artificial' market and its monetary values in order to equate particular (concrete) labours to an average (abstract) standard. As G.D.H. Cole put it, 'this was, in effect, accepting the market valuation of the different grades and kinds of labour and to all intents and purposes making the labour notes mere translations into labour time of money amounts arrived at in an ordinary commercial way'. Rather than providing an escape from the competitive market, the exchanges essentially duplicated their price relations.

These shortcomings encouraged a fifth error: increasing obsession with currency reform. For, if the exchanges were forced to refer back to the 'artificial values' created by use of a money-commodity, it appeared that one way to circumvent this would be to move immediately towards a reformed currency based on labour. As early as November 1832, Owen was emphasizing 'the connection between the exchange movement and schemes for a reformed currency' and soliciting the support of currency cranks such as Thomas Attwood. Thus, the growing monetary preoccupation of men like John Gray and Brunette O'Brien was no personal quirk; it reflected instead a theoretical flaw in popular political economy's location of exploitation at the level of exchange and price formation. As the Operative Builders' Union put it in their Manifesto, 'the present artificial, inaccurate and therefore injurious circulating mechanism for the exchange of our riches, may be superseded by an equitable, accurate and therefore rational representation of real wealth'.

British socialism thus became characterized by a penchant for currency reform schemes as the key to eliminating market-based exploitation. The result was a 'market socialism', which accepted commodities, prices and money while attempting to evade their inevitable effects. To get out of this dead end, socialism needed radically different theories of exploitation and of money. To provide these was one of the burdens of Marx's critical theory of capitalism.

Marx's direct engagement with petty bourgeois socialism came via his encounter with the thought of the French anarcho-socialist Pierre-Joseph Proudhon. Criticism of Proudhon was a persistent theme running through all of Marx's writings on political economy. 'It is no exaggeration to say', observes Rubel, 'that an important part of what Marx published was "in answer" to Proudhon.' In Marx's view, Proudhon was the paradigmatic theorist of petty bourgeois socialism, a socialism constructed from the standpoint of small commodity producers which sought to improve society not by abolishing commodity production but, rather, by purifying commodity exchange. Because Proudhon's thought exercised a major influence within the French workers' movement from the 1840s through to the 1880s, Marx believed it necessary to confront a theoretical perspective which was, he maintained, diverting and disorienting the social and political energies of the French working class. The battle against Proudhonism was thus of pressing theoretical and practical import. But in combating Proudhonian socialism, Marx rarely lost sight of the general significance of this theoretical contest; indeed, he saw this fight as part of a wider effort to liberate the working-class movement from attachment to commodity relations and the capitalist market.

**Proudhon, Property and Political Economy**

From the mid-1840s onwards, Marx waged an unrelenting battle against Proudhon. Yet he never lost a certain sympathy and respect for his adversary's first major work, *What is Property?* That book, Marx wrote in an obituary letter about his rival, 'is undoubtedly his best. It is epoch-making.' Marx was most taken with the work's
'provocative defiance' of the ruling ideas of liberal economics – in particular the latter's justification of capitalist property. Although its critique of property was 'from the standpoint and with the eyes of a French small peasant (later petty bourgeois)' Marx heralded the achievements of What is Property? as one of the earliest and boldest radical assaults on political economy.²

At the heart of Proudhon's first book is the claim that 'property is robbery', a claim that pivots on its distinction between property and possession. Labour, Proudhon asserts, is the basis of wealth, and its performance entitles the producer to possession of its product. But labour does not entitle anyone to own means of production – and here he has the land principally in mind – or to appropriate the product of others. In fact, Proudhon uses the term 'property' to refer to wealth used in employing the labour of others. He accepts the liberal principle according to which performance of labour confers a right to its product, but he distinguishes this right to 'possession' from property right.¹

Just as Proudhon attempts to turn this premise of political economy against one of its (illegitimate) conclusions, so he accepts the theory of exchange developed by the classical economists and tries to use it against the claims of capital. Commerce, he maintains, is the exchange of equivalents, a view which is expressed in the maxim that 'products exchange only for products'. But property violates this maxim, he claims, by justifying an exchange of non-equivalents (money for labour and its products). Moreover, it follows from the principle of equal exchange that all wages should be equal (which they demonstrably are not in modern society), since producers who exchange equivalent for equivalent should all be equally remunerated.⁴

The socialist alternative to the rule of property, therefore, is a society based on individual possession and free and equal trade – and this alternative is in fact the logical extension of the principles of political economy. Proudhon presents such a society as a 'synthesis' of original communism and the system of property. He envisages a society a small independent producers – peasants and artisans – who own the products of their personal labour, and then enter into a series of equal market exchanges. Such a society will, he insists, eliminate profit and property, and 'pauperism, luxury, oppression, vice, crime and hunger will disappear from our midst'.³ Here again we encounter a clarion call for the realization of justice and equality through market exchange among petty producers.

What is Property? thus attempts to turn political economy's premises (labour as the basis of ownership, commerce as the exchange of equivalents) against its conclusions: defence of capitalist profit and property. It was this essentially critical side of the work which won Marx's praise. Nevertheless, Proudhon's argument did not subject those premises themselves to adequate criticism. As socialist thought developed, Proudhon's uncritical adoption of the presuppositions of bourgeois economics more and more became an obstacle to theoretical clarification of the tasks of the working-class movement. Rather than deepening and developing this analysis, Proudhon increasingly resorted to defences of liberal principles. There were six main features of his accommodation to liberal political economy.

First, Proudhon came increasingly to define justice in terms of the proportionality of prices to expenditures of labour. Indeed, the full meaning of the term justice seems for him to have been exhausted by the ideas of just prices and equal exchange. 'Equality', he argued, 'is produced by the rigorous and inflexible law of labor, the proportionality of values, the sincerity of exchanges.'⁵ Equal market exchange among autonomous individuals was thus the foundation of justice and natural law:

What is justice? the pact of liberty.

Two men encounter each other, their interests opposed. The debate is joined; then they come to terms: the first conquest of droit, the first establishment of Justice. A third arrives, then another, and so on indefinitely: the pact which binds the first two is extended to the newcomers, so many contracting, so many occasions for Justice. Then there is progress, progress in Justice of course, and consequently progress in liberty.¹

It follows from this, second, that commodity exchange becomes the model for the social contract. Indeed, Proudhon argues that an infinite series of voluntary contracts among individuals can replace the need for political institutions and a state.⁸ We observe here a familiar pattern in which anarchist conclusions are reached from the premises of unfettered liberalism.

Third, Proudhon depicts exploitation as a product of monopoly and a violation of the true principles of commodity exchange. Under the prevailing system, he asserts, 'there is irregularity and dishonesty in exchange', a problem exemplified by monopoly and its perversion of 'all notions of commutative justice'.⁹ The result of these market irregularities is that 'the price of things is not proportionate to their
value; it is larger or smaller according to an influence which justice condemns, but the existing economic chaos excuses—Usury. This is a classic example of the 'adding on' theory of exploitation according to which illegitimate charges are added to the real value of some things (which simultaneously undervalues other goods). Exploitation becomes thereby a consequence of market disequilibria—the upward and downward deviations of price from value.

It should come as no surprise that, fourth, Proudhon looks to reform of credit and banking as the key to overcoming the inequities of the system of property. Indeed, the plan for a People's Bank became a fixture of Proudhonian social thought. During the short-lived republic created by the revolution of February 1848, Proudhon first set about organizing such a bank; a group of enthusiasts provided him with 20,000 francs, and a basic operational plan was drawn up. The repression which followed the defeat of the workers' revolution in June of that year led, however, to Proudhon's imprisonment and the collapse of the People's Bank, although its author was to revive the idea regularly throughout the 1850s.

Behind all Proudhon's banking schemes was the idea that the commodity basis of money should be abolished. This was to be accomplished by overturning 'the royalty of gold' and substituting for it a paper money based on labour time. All exchange would in this way be reduced to 'exchange of products for products', money would become nothing more than a symbolic representative of labour, and nobody would be able to profit from the possession of a scarce commodity—money like gold. The result would be a system of equitable exchange. During the 1850s this scheme became known as 'mutualism'—a system aspiring to mutually satisfactory exchanges on the basis of a labour-money in ample supply. Implicit in this model is the notion that a common basis can be found for measuring and equating different acts of concrete individual labour. Proudhon sidestepped the real difficulties of this problem, however, by simply asserting the equality of each and every hour of labour performed within society.

From this outlook it follows, fifth, that socialism equals the abolition of monopoly and the realization of free trade. Proudhon praises the virtues of market competition in establishing just prices and wages; he insists that all economic transactions should be governed by 'free contract and subject to competition'. In this light, he depicts mutualism as a synthesis of the principles of competition and association. Finally, there is a political programme—or, more accurately, an political program—which follows from this perspective. It was this orientation to the political struggle of the working class that Marx considered the most pernicious aspect of Proudhonism.

Proudhonian political strategy, if we can call it that, emerged first in *The System of Economical Contradictions* (1846) where its author claimed that 'if you are in a position to organize labour, if you have studied the laws of exchange, you have no need of the capital of the nation or of public force'. Organize along lines of mutualism and equal exchange, he argued, and you 'shall envelop capital and the State and subjugate them'. It followed that there was no need for strikes—which were in any case self-defeating since they merely induced price rises—or political struggles for state power. Moreover, as Proudhon argued in *On the Capacity of the Working Classes* (1865), the legal right to trade union organization is 'contrary to the economic right of free competition'. Indeed, Proudhon claimed in that work that posterity would not condemn the soldiers who shot the striking miners of Rive-de-Gier since, while the former may have acted disgracefully, they sought only to maintain social order. In contrast to the destructive and destabilizing effects of strikes, mutualism would produce a gradual and inevitable victory.

Proudhon thus rejected the idea of progress through class struggle. In his April 1848 electoral address, for example, he exhorted voters to embrace class harmony: 'Workers, hold out your hand to your employers and, employers, do not repudiate the advances of those who were your workers', he exclaimed. Indeed, Proudhon was never loath to proclaim his abhorrence of revolution. As he wrote about the revolutionary events of February 1848, 'the Revolution, the Republic, Socialism, were now approaching with giant strides... I fled before the democratic and social monster whose riddle I could not answer. An inexplicable terror froze my soul and paralyzed my mind.' And, he continued, 'I wept for the burgesses whom I saw ruined, driven into bankruptcy'. Moreover, he went on to explain that socialists were to blame for the hostility that now greeted them since they had threatened to apply their system 'by public authority and at the State's expense'. Political action and revolution were thus condemned. The only acceptable route to a new society was one that posed no threat to the ruling class and the power of capital, one that disavowed political struggle and evolved slowly out of the interstices of mutualist exchange.

As the French workers' movement developed during and after 1848, a perspective which disavowed strikes, class struggle and
revolution exercised an increasingly conservative influence. Proudhon was in fact quite explicit about the backward-looking tendency of his thought. ‘You know me as a revolutionary who is profoundly conservative’, he wrote an acquaintance in the summer of 1849. He later wrote to another ally declaring, ‘my ambition is, after having been the most revolutionary thinker of my time, to become, without changing my opinions one iota, the most conservative’.

And stoke our conservative positions he did. During the election campaign of December 1848, for example, he supported the presidential candidacy of Cavaignac, the general who had bloody suppressed the workers’ uprising in June of that year. Subsequently, he produced an apology for the dictatorship of Louis Bonaparte, arguing that the socialist Left should welcome his coup d’état as it would inevitably advance their cause.

But nowhere is Proudhon’s conservatism more conspicuous than in his attitude towards women. He opposed divorce, approved of those legal restrictions which denied women rights to deal with financial and business matters without paternal or spousal consent, and announced in Proudhon’s diatribe against women’s emancipation, that ‘we men think a woman knows enough if she knows enough to mend our shirts and cook us a steak. I am one of those men.’ His glorification of the patriarchal household was so extreme that he told his friend Karl Grun, ‘far from applauding what is nowadays called the emancipation of women, I am inclined, rather, should it come to that extremity, to put them into reclusion!’

Given the reactionary outlook of their leader, it comes as no surprise that the Proudhonists in the First International vigorously opposed proposals by Marx and his followers to support female labour subject to adequate health and safety legislation.

What bothered Marx was not merely that Proudhon held such reactionary attitudes towards women’s rights, unions, strikes and political action by the labour movement; he was equally dismayed by the wide influence of his ideas within the French working-class movement. Writing to his friend Kugelmann in October 1866, Marx explained that at the first congress of the International,

the Parisian gentlemen had their heads full of the emptiest Proudhonist phrases. They babble about science and know nothing. They scorn all revolutionary action, that is action arising out of the class struggle itself, all concentrated social movements, and therefore also those which can be carried through by political means (for instance the legal shortening of the working day). Under the pretext of freedom, and of anti-governmentalism or anti-authoritarian individualism, these gentlemen … actually preach ordinary bourgeois economy, only Proudhonistically idealised Proudhon did enormous mischief. His sham criticism … attracted and corrupted first the ‘jeunesse brillante,’ the students, and then the workmen, particularly those of Paris, who as workers in luxury trades are strongly attached, without knowing it, to the old rubbish.

One sees evidence of Proudhon’s influence on the French workers’ movement in the ‘Manifesto of the Sixty’, published in 1864. After consultation with Proudhon, the Manifesto was produced by a group of workers whose leading figure was the engraver Henry Louis Tolain. Although the group chose in decidedly non-anarchist terms to field working-class candidates in the coming elections, their programme was essentially mutualist. Tolain and his supporters went on to form the core of the French section of the International Workingmen’s Association (the First International), in which organization they often crossed swords with Marx and his adherents over questions such as strikes, unions, women’s participation in production and state intervention in the economy.

Marx’s view in the 1860s was that a revitalized and politicized trade union movement would serve as the point of departure for radical working-class politics. He thus took heart from the growing sympathy among European workers for a political cause – the national liberation of Poland – and from the fact that it served as the rallying point for launching the First International. Genuine socialist politics for Marx was rooted in militant trade unionism as the latter expressed the class struggle at its most basic level. To be sure, he hoped for a generalized trade unionism and often bemoaned the narrow sectionalism and lack of a ‘spirit of generalization’ which plagued the English labour movement.

But this did not prevent him from celebrating strikes and union struggles as the basis of all real working-class politics – an attitude which brought him into conflict with France’s most famous socialist.

Proudhon’s hostility to strikes and unions found an echo, albeit a somewhat muted one, among his working-class followers of the 1860s and 1870s. Tolain, for example, stressed the formation of economic associations by workers for the purpose of promoting free credit and free exchange as an alternative to union organization. And at the 1866 Congress of the International in Geneva, the Proudhonists condemned strikes as a ‘war between masters … to the detriment of all’. They extolled the necessary role of capital in production, claiming that relations between capitalists and workers
were only perverted in the absence of reciprocal exchange. Moreover, true to their liberal impulses, they opposed the demand for legislation limiting the working day to eight hours on the ground that this interfered with freedom of contract. 23

In the early years of the International, Marx’s views were often in a minority, especially on economic issues. At the Lausanne Congress of 1867, for example, a resolution supporting a state bank based on the idea of free credit was carried with the backing of the Proudhonists from France and the English followers of Bronterre O’Brien. 24 Within England, the ideas of labour banks and equitable exchange were kept alive by the O’Brienite National Reform League, a number of whose members played an important role in the International. In fact, English branches of the International were often dominated by O’Brien’s ideas and by lectures and debates on ‘Land, Currency and Credit’. 25 While Marx admired the more revolutionary and less nationalist attitude of the O’Brienites relative to most English trade unionists, he had little patience for their ‘currency quackery’. 26

Marx’s hostility to Proudhon’s outlook was thus motivated by much more than personal antipathy. Believing that Proudhonist ideas were fatal to the struggle for the emancipation of the working class, and recognizing their wide influence within the French labour movement and, indirectly, among the O’Brienites in England, he considered the defeat of those ideas an urgent task of socialist theory and practice.

**Marx and Proudhon: From First Encounter to Poverty of Philosophy**

Marx’s first mention of Proudhon appeared in an article in the *Rheinische Zeitung* late in 1842 where he states that communist doctrines such as ‘those of Leroux, Considerant, and above all the sharp-witted work by Proudhon’ should be subjected to ‘long and profound study’. The comment occurs in the course of criticism of a German communism which is judged to be guilty of superficiality and phrase-mongering. To counter these traits Marx recommends a serious study of communist writings. With respect to the doctrines of Proudhon and others he appears non-committal; indeed, it is possible that Marx’s knowledge of these writers was at this time derived largely from secondary sources. 27

There is no real evidence that Marx had read Proudhon’s *What is Property?* before 1844. He would have had a growing inclination to do so throughout 1843, however, as both his deepening interest in communism and his increasing concern with political economy pointed him towards Proudhon’s first book. We know also that the young Engels had been strongly influenced by Proudhon’s criticism of political economy, most obviously in the shaping of his *Outlines of a Critique of Political Economy*, which made an outstanding impression on Marx when he first saw it in November 1843. Indeed, in that same month Engels had published an article in the Owenite *New Moral World* in which he stated that *What is Property?* is the most philosophical work, on the part of the Communists, in the French language; and, if I wish to see any French book translated into the English language, it is this. 28 Marx must therefore have turned to Proudhon’s book with great interest; and there can be little doubt that *What is Property?* left a strong initial impression.

Yet, even at this early stage in his reading of political economy, Marx’s admiration for Proudhon’s work was tempered by criticism of its theoretical foundations. In his *Economic and Philosophic Manuscripts* of 1844, for example, Marx claims that Proudhon fails to transcend ‘the level of political economy’. Proudhon, he claims, sees the antithesis of labour and private property and chooses to take the side of the first element in this antithetical relation. The author of *What is Property?* does not understand, first, that labour which produces private property for another is *alienated* labour and, second, that alienated labour and private property form two sides of a single relation. Rather than superseding this single relation (alienated labour/private property) – which would require revolutionizing society – Proudhon clings fast to one side of this relation. He argues that political economy should remain true to its starting point, labour as the source of wealth, while rejecting its conclusion – private property. Yet, argues Marx, this is to miss the essential nature of the dialectical relationship between these principles. Alienated labour is the source of capitalist private property; the latter would not be possible unless the products of wage-labour went into alien hands. Private property cannot be abolished without overturning the relations of alienated wage-labour. Proudhon fails to see this. By championing the cause of wage-labour he retains the very premiss of private property. As a result, he advocates ‘equality of wages’ as the solution to the poverty of labour. Rather than abolishing the wage-system and alienated labour, Proudhon makes everyone a wage-labourer. Yet this ‘only transforms the relationship of the
present day worker to his labour into the relationship of all men to labour. Society is then conceived as an abstract capitalist. Unable to get to the root of capitalist private property, Proudhon merely fights its symptoms, as when he attacks interest on money. In so doing, he simply takes the side of productive capital against one of capital's unproductive forms. Marx concludes that criticism of political economy can advance beyond the inadequacies of Proudhon's analysis and arrive at a concrete understanding of the economic system 'only when labour is grasped as the essence of private property.' This line of argument is recapitulated in Marx's collaborative effort with Engels of 1845, *The Holy Family.*

*The Holy Family* defends Proudhon against the sham criticism of the Left Hegelians. Marx and Engels praise the author of *What is Property?* for having made 'a critical investigation – the first resolute, ruthless, and at the same time scientific investigation – of the basis of political economy, private property'. Whereas political economy had hitherto proceeded from the side of wealth, 'Proudhon proceeds from the opposite side', that of poverty, and proves 'in detail how the movement of capital produces poverty'. Nevertheless, they argue that criticism along Proudhonian lines merely sets the stage for a truly scientific criticism of political economy. Proudhon, they claim, 'has done all that criticism of political economy from the standpoint of political economy can do'. Because he uncritically adopts the liberal concept of individual 'possession' as the basis of the human being's relation to the objective world, Proudhon's standpoint cannot transcend that of political economy and the alienated human reality it describes. That can be accomplished only from a standpoint which sees possessive individualism, to use the modern term, as itself a product of capitalism, not as the natural foundation of human life which is perverted by private property.

In 1844-5, then, Marx held that Proudhon had played an essentially positive role in advancing the critique of political economy while insisting that it was necessary to move beyond the limits of Proudhonian criticism. We know, however, that by 1847 Marx was moved to launch a much more vigorous denunciation of Proudhon with his book *The Poverty of Philosophy.* The increasingly polemical tone of Marx's discussion of Proudhon was occasioned, I believe, by two developments.

First, both Marx and Engels were engaged in sharp debate with the 'True Socialism' which dominated German communism at the time. The 'true socialists' advocated love of humanity, not class struggle, as the basis for transforming society. And this trend, led by Karl Grun in particular, was dominant within communist circles of German artisans in Paris. So concerned were Marx and Engels with combating this sentimental humanitarianism that Engels moved to Paris in August 1846 to confront directly Grun's influence among German communists. Grun, however, was closely associated with Proudhon; and France's leading socialist writer rejected Marx's request that he dissociate himself from the German true socialist. In order to criticize Grun effectively, it became necessary to confront head-on the doctrines of his French supporter.

The second reason for the increasing sharpness of Marx's criticism of Proudhon is that the author of *What is Property?* showed no capacity to develop beyond the limits of his first book. At first, Marx had hoped to influence Proudhon and to win him over to a more consistently revolutionary position. But Proudhon's rejection of Marx's invitation to join a new Correspondence Committee of European socialists and his refusal to distance himself from the sentimental reformism of Grun led Marx to re-evaluate his initial enthusiasm for work with the French socialist. And this re-evaluation must have reached a point of no return with the appearance of Proudhon's *System of Economical Contradictions* (1846). This work demonstrated not merely that Proudhon's outlook was not developing but, worse from Marx's point of view, that it was regressing to a pure and simple petty bourgeois reformism. Rather than deepening his critique of political economy, Proudhon increasingly engaged in developing 'striking, ostentatious, now scandalous or now brilliant paradoxes'. Phrase-mongering had replaced serious analysis. And this was expressed in a tendency to depict surface modifications of bourgeois society, such as people's banks and free credit, as momentous revolutionary advances. Garbled theory produces muddled politics, Marx argued; indeed, 'charlatanism in science and accommodation in politics' followed hand in hand.

By the end of 1846, then, Proudhon no longer appeared to Marx as a possible ally who could be won to a deeper and more revolutionary perspective. Moreover, in light of Grun's use of Proudhon to advance the cause of 'true socialism', the latter's ideas increasingly appeared as an obstacle to the revolutionary workers' movement - and one that would have to be confronted head-on. *The System of Economical Contradictions* provided just the opportunity he was looking for.
The Poverty of Philosophy: Petty Bourgeois Socialism Under Attack

Whereas What is Property? had been a sharp-witted work of criticism, Proudhon's System was designed to be a more constructive and expository work. As Marx rightly saw, however, in theoretical terms the book offered little more than a vulgarized version of Ricardo and Hegel. Rather than departing from the highest achievements of these great bourgeois thinkers while overcoming their limits and contradictions by means of systematic criticism, Proudhon's System merely played with Ricardian and Hegelian ideas in order to arrive at the author's pre-established political conclusions. The result was not a piece of scientific criticism which deepened understanding of the contradictions of capitalism, but a blustering piece of eclecticism which could only do damage to the socialist workers' movement.

In his economic analysis, Proudhon sought to show the 'revolutionary' character of the doctrine that exchange value is determined by labour-time. From this Ricardian proposition Proudhon concluded that, since value theory posits the equality of the labour embodied in any two commodities that enter into exchange, it therefore follows that all acts of labour are equal (i.e. that any hour of concrete labour is equal to any other) and hence that all labourers should be paid equal wages. Yet as Marx points out, the Proudhonian conclusion does not follow from the Ricardian premises. To say that commodities exchange on the basis of the labour-time needed for their production is not to say that each concrete hour of labour performed in society is equal to every other. The value of a commodity includes, after all, the indirect labour (embodied in the means of production) as well as the direct labour that enters into its production; it is not simply a question of the value created by direct labour and its remuneration (wages). More important, the equivalence of exchange-values does not imply the identity of each and every hour of labour performed. On the contrary, one of the functions of market competition is to determine precisely how much a given hour of labour is worth relative to other hours.

While Marx had not yet developed the crucial distinction between concrete labour and abstract labour which is at the heart of Capital, he had already grasped the idea that exchange on the basis of labour-time does not imply the identity of all specific, concrete acts of labour. He recognized that only on the market does the producer discover the (abstract) social value of a given hour of (concrete) labour performed. One hour of my labour may end up exchanging for only 45 minutes of someone else's labour (should the market deem my labour to be less productive than theirs). So, while it is true that Ricardo's theory of value presupposes the equal exchange of equal quantities of labour, this has nothing to do with the idea of an intrinsic equality of all individual acts of labour. The market does operate according to equal exchange; but this equality is established by over-riding the concrete particularity of each and every act of labour in order to transform them into quantifiable units of a common substance — human labour in the abstract. Thus, while average or 'socially necessary' labour is the measure of value (and hence of the social weight of individual acts of labour), this says nothing about the equality of each and every productive act per se. Proudhon's mistake, therefore, is to confuse 'measure by the labour time needed for the production of a commodity' and measure by the value of the labour'.

Proudhon fails to realize that the law of value (exchange on the basis of labour-time) operates only via the 'fluctuating movement' of the capitalist market and that there is no ready-made constituted 'proportional relation' which can provide an unchanging standard for just prices and equal exchanges. The 'anarchy of production' and market fluctuation are the actual mechanisms through which the law of value asserts itself. Fluctuation, imbalance and overproduction are thus inherent in any system of commodity exchange. Rather than violations of the true principles of market exchange, these phenomena represent the actual economic life-processes necessary to any system of commodity production. Failure to grasp this leads to the hopeless confusion of seeking an egalitarian reform of society on the basis of the Ricardian theory of value — a false start which had been taken by a number of earlier socialist writers, among them John Francis Bray in his Labour's Wrongs and Labour's Remedies.

Marx offers two main challenges to Bray's theory of equal exchange (which he treats as an anticipation of Proudhon's position). First, he points out that if individual workers perform their concrete acts of production in isolation and without any collective co-ordination, there can be no guarantee that the requisite amounts of various goods will be produced. Too much labour time may have been expended on some commodities (e.g. chairs and shoes) and not enough on others (e.g. wheat and soap). Only if there is agreement among the producers prior to production about the amount of labour to be expended in various areas will there be a reasonable guarantee of equality of
supply and demand (with the result that all hours of labour performed will in fact enter into exchange). 'But', Marx points out, 'such an agreement negates individual exchange.' And he goes on to argue that, since modern labour is based on co-operative acts of mass (not individual) production, planning the expenditure of social labour will require eliminating the struggle between capital and labour and allowing freely associated labour to direct economic decision-making. In such a co-operative arrangement based on socialized labour, 'there is no exchange of products - but there is exchange of labour which cooperated in production'. It is worth emphasizing here that when Marx states that there is 'no exchange of products' under planned co-operative production he means no commodity exchange where the demand for and the value of a given product is established on the market after the act of production.

Bray's error, like that of Proudhon, was to treat one of the principles of modern bourgeois society as the basis for the reconstitution of society on new principles. Exchange on the basis of equal labour times is in fact a consequence of private property and the rule of capital.

Mr. Bray does not see that this equalitarian relation, this correction ideal that he would like to apply to the world, is itself nothing but the reflection of the actual world, and that therefore it is totally impossible to reconstitute society on the basis of what is merely an embellished shadow of it.

And this problem emerges even more starkly in Proudhon, who seeks to reform the monetary system without ever asking why it is necessary within capitalism 'to individualize exchange value, so to speak, by the creation of a special agent of exchange'. Money, Marx goes on to point out, is not a mere thing, not simply an instrument of exchange, 'it is a social relation'. If money is necessary to exchange, this is indicative of a state of affairs in which human beings do not consciously regulate their economic relations, but in which 'a special agent' must intervene to regulate relations which escape human control.

The Poverty of Philosophy thus continues the argument Marx advanced in his writings of 1844-5 to the effect that Proudhon is unable to transcend the horizon of political economy and its presuppositions. As a result, Proudhon dehistoricizes the categories of political economy, treats them as expressions of eternal principles of social life, and attempts to purify those principles by liberating them from the encumbrances of monopoly rather than engaging in a critique designed to move entirely beyond the horizon of bourgeois economics. By accepting the premises of political economy, Proudhon can merely engage in the tedious exercise of showing how political economy contradicts itself. He does not grasp that these theoretical contradictions are necessary results of the real contradictions of capitalist production. As a result, he hopes to resolve these contradictions through the purely intellectual exercise of separating the 'good' aspects of capitalism (individual production, competition, exchange of equivalents) from the 'bad' (private property, monopoly, exploitation). Rather than show the inevitable self-contradictions of modern society which need to be exploded, he regresses to the standpoint of an abstract moralizing - praising the 'good', bemoaning the 'bad'. As Marx notes, with Proudhon 'there is no longer any dialectics but only, at most, absolute pure morality'.

By dialectics Marx does not mean an abstract, transhistorical schema which runs through all stages of human development. What he has in mind here are the dialectics - the principles of self-contradiction and self-development - which grow out of the concrete activities of human beings within a given form of society. This involves abandoning attachment to 'eternal principles' of the sort invoked by Proudhon and turning instead to 'the real, profane history' of humanity. While this requires treating human beings as 'both the authors and actors of their own drama', it also involves delineating the structured contexts in which they act by situating human actions in terms of 'a definite development of men and their productive forces'. Such a mode of analysis leads one to the centrality of the class struggle between labour and capital, proletariat and bourgeoisie, as the driving contradiction of modern society. Socialist theory cannot be content, therefore, with the construction of abstract utopias or the creation of 'a regenerating science.' On the contrary, it must attempt to become the self-knowledge of a real historical process - the emergence of the revolutionary struggle of the proletariat out of the internal contradictions of capitalist society. Revolutionary socialist theory expresses, in other words, 'actual relations springing from an existing class struggle, from a historical movement going on under our very eyes'.

Concrete, historical dialectics must be rooted, therefore, in the real self-activity and self-development of the working class. In terms of political theory, this involves the insistence that socialism can only be achieved through the self-emancipation of the working class. For this reason, Marx sharply attacks Proudhon's hostile attitude towards
strikes and trade unions; while recognizing the limits of trade union struggle, Marx nevertheless treats unions as ‘ramparts for workers in their struggles with the employers’. Moreover, these ramparts of working-class self-organization could provide the ground for an association ‘which takes on a political character’. Marx dismissed Proudhonian opposition to working class political action. The class struggle discloses to workers that economics and politics are not truly separable; economic emancipation requires the conquest of political power. There is no way to shortcut the necessary ‘moments’ of the class struggle; rather than fearing them or attempting to transcend them, socialist revolutionaries try to raise them to their highest level – a working-class revolution which will lead to the abolition of classes and the state.\(^{40}\)

The Poverty of Philosophy thus set out both the theoretical and practical orientations of Marxian socialism. At the level of theory, this involved a rigorous critique of the phenomena through which capitalism most immediately confronts the individual – the commodity, money, market exchange – by showing them to be necessary forms taken by the alienated and antagonistic relations of capitalist production. And at the level of political practice it involves rejecting the idea that any of these necessary forms can be the means for a progressive regeneration of society, and asserting that a higher form of society can develop only out of the self-activity of the exploited class whose labour sustains the whole edifice of capitalism.

**A Battle Continued: Marx’s ‘Economy’ and the Critique of Proudhon**

Much as Marx may have hoped to dispose of Proudhon in 1847, his adversary’s influence was not to diminish in working-class and socialist circles. Indeed, throughout the 1850s Proudhon continued to be Europe’s best-known socialist writer while Marx laboured in intellectual and political obscurity. Thus, although this decade was dedicated largely to work on his ‘Economics’, Marx regularly returned to the debate with his French opponent. In fact, criticism of Proudhon continued to provide a stimulus to his critique of political economy.

The appearance of Proudhon’s *General Idea of the Revolution in the Nineteenth Century* provided the occasion for a development of key themes of *The Poverty of Philosophy*. In a letter to Engels in August of 1851, shortly after Proudhon’s work appeared, Marx stated that he would like to write a short tract on *The General Idea* ‘because of what it says about money’. Once more he attacked Proudhon’s confusion with respect to the law of value and the role of money and banks. Two months later, Marx urged Engels to give him his views on Proudhon, noting that ‘they are the more of interest now that I am in the middle of setting out the Economy’. Marx returned to the matter the following month, this time incensed by reading Proudhon’s *Gratuité de crédit*, a work characterized by ‘charlatanism, poltroonery, a lot of noise and weakness’. This time, in fact, Marx was moved to propose to his friend Joseph Wedemeyer a series of articles under the banner ‘New Revelations on Socialism, or the Idée générale of P. J. Proudhon. A Critique by Karl Marx’.\(^{41}\)

Although he did not produce this critique, Marx was prompted once again to undertake such a work in 1856-7. In January 1857 he wrote Engels that ‘Proudhon is now publishing an “economic Bible” in Paris’, and went on to note: ‘I have a more recent work by one of Proudhon’s pupils here: De la Réforme des Banques, par Édouard Dartigolles, 1865’.\(^{42}\) This time Marx did write his critique – in the form of the opening section of the *Grundrisse*, the first draft of his ‘Economics’. Although its significance has eluded most commentators, the first chapter of that work, ‘The Chapter on Money’, begins with a citation from Dartigolles’s book, and the whole of the 124-page chapter (in the English translation) is framed by his confrontation with Proudhon’s disciple.\(^{43}\)

Beginning with the central flaw of Proudhonian theory, Marx points out that this doctrine ‘proposes tricks of circulation’ in place of a genuine transformation of society. At the heart of these ‘tricks’ is monetary reform via a people’s bank. But no form of money ‘is capable of overcoming the contradictions inherent in the money relation’. Abolish the monetary role of gold and silver and you must still address the persistence of this ‘money relation’.\(^{44}\) Much of the rest of the ‘Chapter on Money’ is devoted to delineating this relation, to demonstrating that the contradiction between money and commodities which the Proudhonians hope to suppress is a necessary aspect of any system of commodity production and exchange.

Marx’s discussion departs from the point he had reached in *The Poverty of Philosophy*: that values of commodities can express themselves only through the constant fluctuations of the market. But he quickly links this issue to a more substantial problem not addressed in that earlier work: the necessity of money in any system of unplanned production governed by exchange according to average labour-times.
The average (or socially necessary) labour-time required to produce a given commodity is something determined outside any one concrete production process. Only rarely will individual production times be identical with the average labour-time. ‘This average appears as an external abstraction’, but at the same time it is ‘very real’ – it is that average we glimpse through the ‘constant oscillations’ of commodity prices. Marx thus arrives at the conclusion that value can only manifest itself as price. But price and value only episodically coincide. The ever-changing relations of supply and demand, the introduction of new methods of production, and so on render prices inherently unstable. In a world of constantly changing market values, it is impossible to determine in advance the exact ratios at which commodities should exchange (as the proponents of labour money or ‘time chits’ would like). How, then, do we come to know the values of commodities and the ratios in which one should exchange with another? The ‘time-chitters’ conjure away the difficulties here with a pseudo-solution: treat every concrete act of labour as identical, they propose, and let each hour of labour exchange for any other. But individual acts of labour are not equal. Looked at concretely, they are radically different; they produce varying goods in quite different productive situations. As a result, two commodities produced independently can only be equated through the medium of a ‘third party’, which measures the average (or socially necessary) labour they represent. It is impossible for an individual commodity to provide this measure of itself since no specific act of labour can be assumed to represent the social average; put differently, no individual act of labour can be the measure of its own social value. The role of money, as we shall see in more detail below, is to act as a general representative of value (average social labour) and to provide the means of measuring the social value of specific commodities.\footnote{Marx’s discussion of the money relation in the Grundrisse operates at a very high level of abstraction and without the conceptual precision of his treatment of the problem in Capital. But its direction is clear: value is a social relation which can be expressed only by means of a specific commodity chosen from the world of commodities (money). Money is necessary in a system of commodity production since ‘as a value, the commodity is general; as a real commodity it is particular’. And in order for a particular commodity produced in an unsocialized context to manifest its general or social nature (and thus to be exchangeable with another commodity), it requires something outside its own particular existence in which it can express its social being (its value). We have here a classic case of alienation: universal (value) and particular (commodity) are separated; their unification (in which the commodity attains a social value in the world of commodities) happens via a third party, a party external to the thing itself (commodity).}

In capitalist society there is thus a complete separation between the general and the particular, the social and the individual. On the one hand, we have separate and isolated acts of production which are brought together through the medium of things (commodities) in the act of market exchange. On the other hand, we have a separate representative of the social being of these things and the labours which went into producing them. Under capitalism, the universality and social being of commodities can be expressed only as something alien to them, autonomous, as a thing. Consequently, ‘exchange value obtains a separate existence, in isolation from the product … this is, money’. So long as the alienated relations of capitalism persist, it will not be possible to abolish the form in which that alienation manifests itself – money. It is not especially important whether gold or silver assumes the role of a universal ‘third party’ which measures the value of specific commodities; but something must assume this role or commodity exchange would not be possible. To abolish money, then, requires more than overcoming a worship of precious metals; it requires the abolition of commodity production (unsocialized production for market exchange). It follows, therefore, that it is impossible to abolish money itself as long as value remains the social form of value.\footnote{There are a number of gaps in Marx’s discussion of the commodity/money relation in the Grundrisse, due in part to what he described as ‘the idealist manner of the presentation’. Yet, as a critique of labour-money schemes, the essential argument is valid. Labour-money cannot transcend the contradictions of the money relation unless a balance of supply and demand is guaranteed, and unless individual and socially average labour-times are brought into harmony. But for this to happen, the Proudhonian national bank would have to be ‘the general buyer and seller’. Moreover, this institution would have to determine the labour time in which commodities could be produced, with the average means of production available in a given industry, i.e. the time in which they would have to be produced’. To this end, ‘social production in general would have to be stabilized and arranged so that the needs of the partners}
in exchange were always satisfied'. Most important, the purchase and sale of labour would have to be replaced - otherwise unemployment and/or changes in wage rates might upset price equilibrium - which presupposes 'common ownership of the means of production'. As Marx explains a bit further on in the Grundrisse, isolated and individualized labour can only become socialized through the intervention of an intermediary. Individual labour can avoid the intervention of an intermediary only if it is socialized from the outset: 'in order to be general money directly, it would have to be not a particular, but general labour from the outset; i.e. it would have to be posted from the outset as a link in general production.' It is clear that this presupposes socialized production: 'the communal character of production would make the product into a communal, general product from the outset'. Changes of this magnitude require much more than the establishment of labour money; they presuppose the elimination of all the essential conditions of the capitalist mode of production. For, 'if the social character of production is presupposed', then consumption 'is not mediated by the exchange of mutually independent labours or products of labour'. Instead, consumption would be socially guaranteed. The only real alternative to capitalist production - and the exploitation attendant on it - is one which overcomes the separation of the producers from the means of production and which eliminates commodity exchange as the basis of existence. Short of this, any talk of abolishing money while retaining individualized production and exchange of commodities is a hopeless fantasy.

By the time he had completed the Grundrisse 'Chapter on Money', Marx believed that he had demolished the theoretical underpinnings of Proudhonian socialism. His analysis of money, he wrote to Engels, aimed 'several opportune blows against the Proudhonists' and the 'absurdity' of their attempt to oppose the 'exchange of equivalents' to 'the inequalities etc. which this exchange produces and from which it results'. And his first attempt to present a systematic exposition of his economic theory, A Contribution to the Critique of Political Economy, would provide, he promised Wedermeyer, 'a scientific victory for our Party' since 'the basis of Proudhonist socialism ... will be run into the ground.' One of the achievements of the book, he reminded Engels, was that 'Proudhonism has been extracted by its roots'.

The Contribution concisely restates the basic theory of money developed in the Grundrisse. Marx criticizes petty bourgeois socialism for its failure to understand the necessity of a money-commodity to

any system of independent production and exchange. The target this time is John Gray:

Commodities are the direct products of isolated independent individual kinds of labour, and through their alienation in the course of exchange they must prove that they are social labour, in other words, on the basis of commodity production, labour becomes social labour only as a result of the universal alienation of individual kinds of labour. But as Gray presupposes that the labour-time contained in commodities is immediately social labour-time, he presupposes that it is communal labour-time or labour-time of directly associated individuals. In that case it would be impossible for a specific commodity, such as gold or silver, to confront other commodities as the incarnation of universal labour.

While Marx criticizes Gray's theoretical confusion in trying to abolish the exchange of commodities (by centralizing exchange in the hands of the bank) while preserving commodity production by isolated producers, the bulk of his scorn is reserved for Proudhon. For Gray at least was 'compelled by the intrinsic logic of the subject matter to repudiate one condition of bourgeois production after another' with his calls for nationalization of the land, public ownership of the principal means of production, and a national bank which would direct and regulate production. Gray's inability to theorize the commodity/money relation leaves his argument suspended in mid-air, repudiating many of the conditions of bourgeois production but not bourgeois production per se. Yet Proudhon does not advance even this far. He simply wants to rid society of a monetary commodity (like gold or silver) - and thereby abolish usury and monopoly - in order to enable the pristine relations of commodity production to realize themselves in a true society of justice. Proudhon's standpoint is thus a significant regression from that of a socialist writer like Gray (not to mention Thompson and Bray whose works achieved an even higher level of clarity):

it was left to M. Proudhon and his schools to declare seriously that the degradation of money and the exaltation of commodities was the essence of socialism and thereby reduce socialism to an elementary misunderstanding of the inevitable correlation existing between commodities and money.

Capital: 'The Real Battle Begins'

Important as it was to the critique of Proudhonism, the Contribution had broken off, Marx believed, right where the crucial battle should
begin. As he explained in a letter to Ferdinand Lassalle, the Contribution covered the ground only of the chapters on the Commodity and on Money from the original outline for the 'Economy'. The crucial third chapter, on Capital, he had held back from the Contribution. And he had done so 'for political reasons, for the real battle begins in chapter 3, and I thought it advisable not to frighten anyone off from the very beginning'. In fact, chapter 3 in Marx's original outline grew into the entirety of the first volume of Capital after 'Part One: Commodities and Money'. It was there, he believed, in the theory of capital, that petty bourgeois socialism would find its definitive repudiation. Yet even the opening chapters of Capital advance Marx's critique of petty bourgeois socialism by developing his clearest exposition of the relation between commodities and money, and of the contradictions inherent in schemes for 'market socialism'.

Whereas the Grundrisse commenced with an analysis of money, Capital starts with the commodity. Commodities, Marx explains, have a dual character: they are both use-values (useful objects capable of satisfying some human need) and exchange-values (products that can be exchanged for other goods). Commodity exchange, however, is governed not by usefulness but by exchange-value. The latter is regulated by labour-time. But just as commodities have a twofold character - being both use-values and exchange-values - so does the labour that goes into their production. On the one hand, there is the concrete (useful) labour directly expended in the production process; and, on the other hand, there is the abstract (socially necessary) labour this represents. The whole mystery of commodities and money is embodied in these two pairs: use-value/exchange-value, and concrete labour/abstract labour. It is of the nature of the commodity that each element of these pairs is separated from the other: the use-value of a commodity is realized only if it can transform itself into an exchange-value, just as the concrete labour that went into producing it is validated only when it is translated into abstract social labour through exchange on the market. The mysterious nature of the commodity has to do with the internal divisions it embodies, which can be transcended only through complex external relations.

The secret of the mystery of commodities can be arrived at, Marx claims, by means of a comprehensive analysis of any exchange equation such as 20 yards of linen = 1 coat. When we say that the value of the linen is expressed in the coat, we indicate that the coat is the material expression of the value of the linen. Since the value of the linen cannot be expressed in its own use-value (since it does not exchange with itself), it finds its expression in the use-value of the coat. As we have already noted, the translation of concrete individual labour into abstract social labour requires an external relation, something outside the commodity whose exchange-value we wish to know. Because commodities are products of mutually independent acts of labour, performed in isolation, individual labour is separated from social labour. Produced in isolation, without social co-ordination, the linen requires another commodity (in this case the coat) to function as the medium for expressing its social being.

But linen and coats are concretely different objects which satisfy different human needs. For one to serve as a means of expressing something inherent in the other, they both must share a common characteristic separate from their concrete utility. This common characteristic is general (abstract) human labour. The equation 20 yards of linen = 1 coat refers not to a material relation between these goods, but rather to a social relation between the labour embodied in them. The social character of the coat - the fact that it represents an expenditure of average social labour as well as of concrete, useful labour and can thus be exchanged with other commodities - can only be 'activated' by bringing the coat into a relationship with linen (or some other commodity).

So long as we restrict ourselves to this simple or accidental relationship between two commodities selected at random, we can say no more than that the use-value of the coat expresses the exchange-value of the linen, since to know the exchange-value of the coat we would have to bring it into an active relation with another commodity and thus extend our exchange sequence to at least a third good, e.g. 20 yards of linen = 1 coat = 10 pounds of tea. At the simple level of a two commodity relation, the abstract labour represented by the linen is expressed in the concrete labour embodied in the coat (whose social value could be discovered only by bringing it into an exchange relationship with tea or some other commodity). As Marx puts it, 'this concrete labour therefore becomes the expression of abstract labour'. This, moreover, is just another way of saying that within every commodity there is an 'internal opposition between use-value and value' which is 'represented on the surface by an external opposition, i.e. by a relation between two commodities'.

The relationship between money and commodities is merely an expanded (and in principle infinitely expandable) form of the equation 20 yards of linen = 1 coat. With money, one particular commodity,
let us say gold, is selected to play the role of general equivalent to the world of commodities. Every commodity thus enters into a relationship with gold in the same way as the linen did with respect to the coat, i.e., as a commodity which finds an external object (gold) in which to express the value inherent in itself. The money relation is thus inherent in a system of commodity production (production for exchange). This is a crucial point, which eludes market socialists who wish to retain unregulated, individualized production for a market while abolishing the 'tyranny' of a money-commodity. Yet that very tyranny—the fact that only a commodity can require that every other commodity take it as the universally accepted means of expressing their values (that they achieve social being as worth, so much gold)—derives directly from the fetishism inherent in the commodity form.

Marx's theory of commodity fetishism refers to the fact that within capitalism the social relations between people as producers take the form of material relations between things—commodities. It is impossible for the products of unsocialized production relations to express themselves in a directly social fashion. Yet commodity production is ultimately social in nature; it is production not for private use but for exchange with others. However, the social relations inherent in commodity production 'do not appear as direct social relations between people in their work, but rather as material relations between persons and social relations between things'.

Commodity fetishism—in which the social relations between people can only manifest themselves as relations among things—derives directly from the separation (alienation) among commodity producers. And it expresses itself in the fact that a thing—money—is necessary to endow the private labour of the individual with social being. Without its metamorphosis into money, a commodity would remain a private thing lacking any social reality. As Marx puts it in the Grundrisse, 'the individual carries his social power, as well as his bond with society, in his pocket'. And this is a direct result of the alienation peculiar to capitalism since 'money can have a social property only because individuals have alienated their own social relationship from themselves so that it takes the form of a thing'.

For Proudhon to hope that 'all commodities can simultaneously be imprinted with the stamp of direct exchangeability' is therefore an illusion of the same order as desiring 'that all Catholics can be popes'. To make all Catholics popes would be to abolish the pope, which would be to abolish Catholicism. Similarly, to make all goods directly exchangeable without the mediation of money would be to socialize their production, to make them products of communally organized production, i.e., to abolish their status as commodities. Yet Proudhon is unwilling to take these steps; he remains mired in a 'philistine utopia' in which he views 'the production of commodities at the absolute summit of human freedom and individual independence' while aspiring to remove 'the inconveniences resulting from the impossibility of exchanging commodities directly, which are inherent in this form of economic life'.

Proudhon's confusion involves opposing the forms in which commodity relations necessarily express themselves while accepting the relations which create them. Petty bourgeois socialists become hopelessly entangled in self-contradiction since they focus on one side of the commodity/money relation without grasping that both sides are internally related, that one cannot have commodity relations without a money commodity. In addition, the market socialists' failure to grasp the necessity of money in a system of commodity production also results in an inability to understand the connection between value and price.

As we have seen, at the heart of Smithian socialism is the attempt to reconcile price with value, to create a régime of 'natural prices' free from unfair monopolistic additions to commodity prices. Yet Marx's theory of the commodity/money relation demonstrates that divergence between price and value will tend to be the rule. After all, the value immanent in the commodity can only manifest itself as a monetary price. Indeed, unless it can realize itself as a price by exchanging with money, value does not achieve concrete existence. Prices, however, are the products not simply of general economic laws—such as the determination of value by socially necessary labour-time—but also of innumerable fluctuations in supply and demand, changes in the costs of inputs, and so on. Given the incessant fluctuations of such factors, only rarely will market price coincide with immanent value. Rather than undermining the laws of market exchange, then, the expression of value in a monetary price separate from immanent value is necessary to a law of value which can manifest itself only in the form of fluctuating prices which regularly diverge from underlying values. The discrepancy between price and value is thus not a flaw, as the Smithian socialists believed; it is an essential feature of any system of commodity production. Divergence between price and value, as Marx put it, 'is inherent in the price-form itself. This is not a defect, but, on the contrary, it makes this form the
adequate one for a mode of production whose laws can only assert themselves as blindly operating averages between constant irregularities.\(^{36}\)

The efforts of the petty bourgeois socialists to suppress the power of a money commodity and to establish an immediate identity between value and price demonstrates a thoroughgoing confusion as to the nature of market regulation and production for exchange. Proudhon and his English predecessors may perceive the alienated relations between commodities and money, value and price; but they are unable to see the necessity of such relations in a system of production governed by exchange. It is worth quoting Marx at some length on this point:

Commodities first enter into a process of exchange ungilded and unsweetened, retaining their original home-grown shape. Exchange, however, produces a differentiation of the commodity into two elements, commodity and money, an external opposition which expresses the opposition between use-value and value which is inherent in it. In this opposition, commodities as use-values confront money as exchange-value. On the other hand, both sides of this opposition are commodities, hence themselves unities of use-value and value. But this unity of differences is expressed at two opposite poles: the commodity is in reality a use-value; its existence as value appears only ideally, in its price, through which it is related to the real embodiment of its value, the gold which confronts it as its opposite... These antagonistic forms of the commodities are the real forms of motion of the process of exchange.\(^{39}\)

Because commodities cannot express their values directly they require an external relation to money. And this external relation creates the formal possibility of economic crises, which the market socialists had hoped to eliminate by abolishing the commodity character of money. By demonstrating that it is impossible to abolish the binary relation commodity/money within the confines of commodity production, Marx also shows that crises are inherent in this relation. Although Marx’s full theory of capitalist crisis was only developed at the much more concrete level of analysis found in the third volume of *Capital*, he insisted that crisis was rooted in the commodity/money relation. Put simply, a crisis occurs when some commodities cannot complete their metamorphosis, when they are unable to realize themselves as values because they fail to exchange with money. Because the social being (value) of a commodity is not immediately given, and because it can only be realized through exchange with a separate commodity (money), it is always possible that this process of self-realization and self-transformation of the commodity will not transpire, that it will remain in its immediate form (use value/concrete labour) and not realize itself in exchange. A crisis is precisely such a moment in which commodities fail to enter fully into their external relations with money; then the separation between commodities and money reaches a breaking point. ‘In a crisis, the antithesis between commodities and their value-form, money, is raised to the level of an absolute contradiction.’\(^{35}\) Contrary to the market socialists, then, crises are not a contingent fact deriving from a distortion of the market economy by money; they are inherent in the commodity relation per se.

Part One of *Capital* (Volume One) thus demonstrates the inability of petty bourgeois socialism to grasp the commodity/money and value/price relations and the possibility of crises these entail. Marx turns in parts Two to Six to a discussion of capital, the labour process and the production of surplus value. The burden of much of these parts is to demonstrate how it is that capital systemically appropriates a share of the unpaid labour (surplus value) created by wage-labourers. At the centre of Marx’s argument is the claim that it is the availability of labour-power on the market (offered by those who have no alternative means of subsistence) which enables capital to appropriate a surplus-value from the direct producers. It is not unequal exchange that accounts for exploitation of labour; rather, it is the appearance of labourers on the market as sellers of their working power as a result of their dispossession from means of production. This labour-power can then be consumed by capital in the process of production for a duration and at an intensity which results in the creation of a value greater than that which was originally paid for it as wages. Building on this analysis, Marx returns in Part Seven (Volume One) to the problem of petty bourgeois socialism once more – this time in an effort to illustrate the confusion behind Proudhonian opposition to capitalist appropriation in the name of individual appropriation. In this case as well, Marx attempts to show the necessary relationship involved: individual appropriation and capitalist appropriation are two sides of a single relation within the framework of capitalist production.

Marx confronts this issue directly in chapter 24 of *Capital*, ‘The Transformation of Surplus-Value into Capital’. The first subsection of this chapter bears the heading: ‘Capitalist Production on a Progressively Increasing Scale. The Inversion which Converts the Property Laws of Commodity Production into Laws of Capitalist
Appropriation'. This subsection, which Marx expanded significantly in the French edition of 1872, challenges the very axis of Proudhonian economic theory – the critique of capitalist appropriation of a share of the products of labour, according to the principle of individual appropriation (the right of all labourers to ownership of the products of their labour). Central to Marx's argument is the claim that commodity production and capitalist appropriation are entirely compatible, even if the former is 'inverted' in its development into the latter. Marx claims that this 'inversion' grows out of the nature of individual production, exchange and appropriation. By thus insisting that capitalist appropriation grows out of individual appropriation – that the seizing of a share of the labourer's output by capital does not contradict, but is in fact consistent with, the principle of free and equal exchange among individual proprietors – Marx is attempting to drive the final nail into the coffin of Proudhonian theory.

Too often, Marx's treatment of this issue has been misunderstood as implying that simple commodity production automatically gives rise to fully capitalist production. Marx's claim is different: it is that the property right established according to the principle of individual appropriation and equal exchange, which Proudhon saw as in conflict with capitalist exploitation, can and does become the legitimating principle of such exploitation. As soon as a full-scale labour market is created (by the dispossession of masses of producers), then, Marx argues, exploitation can occur under conditions of equal exchange. If the employer pays the prevailing market rate for labour-power, then there is an exchange of equivalents – labour for wages. But in paying the value of labour (wages), the capitalist receives its use-value (labour-power). This enables exploitation to occur after this free and equal exchange has taken place, when, by productively consuming labour-power in the production process, the capitalist receives commodities whose value exceeds what was paid out in wages (and other initial costs of production). It is crucial to realize, however, that this exploitation does not contradict the equal exchange which preceded the process of production.

The fact that capitalists own means of production upon which they can set wage-labourers to work is an inequality established prior to any specific transaction in the labour market. Within that market, every transaction can in principle be entirely equitable – i.e. capitalists pay the full value of labour as established on the market – yet the equivalents exchanged will not be personal labour for personal labour. From the moment one party has the means to exchange capital for labour, then labour market transactions become the exchange of living labour for portions of unpaid past labour. Henceforth, 'each individual transaction continues to conform to the laws of commodity exchange, with the capitalist always buying labour-power and the worker always selling it at what we will assume is its real value'. But now this ongoing process of equal exchange is also an incessant process of capitalist appropriation – since a surplus value can be extracted in the sphere of production – without any violation of the principles of free market exchange. In this way, 'the laws of appropriation or of private property, laws based on the production and circulation of commodities, become changed into their direct opposite through their own internal and inexorable dialectic'. While we continue to observe an exchange of equivalents – labour for the wages determined in the market – the equivalence is merely formal; in substance there is a fundamental inequality at work, but one which originates outside the sphere of exchange (however much it is reproduced by it):

The relation between capitalist and worker becomes a mere semblance belonging only to the process of circulation, it becomes a mere form which is alien to the content of the transaction itself, and merely mystifies it. The constant sale and purchase of labour-power is the form; the content is the constant appropriation by the capitalist, without equivalent, of a portion of the labour of others.

Given these class arrangements, equal exchange sustains the separation of workers from their products, of labour from property. This is the 'inversion' Marx has in mind: whereas private appropriation and exchange were initially justified in terms of the right of individuals to exchange the products of their labour, from the moment that some are propertyless and have only their labouring ability to sell, then the same principle justifies the buyer of their labour-power in 'fairly' claiming the commodities they produce. Yet legal ownership of the means of production enables the capitalist, while paying the value of labour as determined by the market, to appropriate more value than was advanced as wages. What these buyers acquire is a unique commodity, labour-power, which has the special property of being able to generate more value than that which is necessary to its own production/reproduction (represented by wages). But this surplus-value is not appropriated as a result of fraud; it takes place 'in the most exact accordance with the economic laws.
of commodity production and with the rights of property derived from them.

The key to the entire process, of course, is the proletarianization of a substantial proportion of the working population. Without that precondition, simple commodity production cannot develop into fully capitalist production. But that precondition is the very defining characteristic of a genuine system of commodity production:

This result becomes inevitable from the moment there is a free sale, by the worker himself, of labour-power as a commodity. But it is also only from then onwards that commodity production is generalized and becomes the typical form of production; it is only from then onwards that every product is produced for sale from the outset and all wealth goes through the sphere of circulation. Only where wage-labour is its basis does commodity production impose itself upon society as a whole.

The process that Marx is describing at this level of theoretical abstraction corresponds to the historical processes I have discussed in chapter 1: petty commodity production becomes a breeding ground for capitalist exploitation once a significant number of producers have been forced onto the market as sellers of labour-power. Indeed, given adequate supplies of labour-power on the market, petty commodity production will undergo a systematic process of class differentiation; the capital/wage-labour relation will grow out of the soil of petty production. Given that condition, which is the very key to the development of capitalism, exploitation can take place through pure economic transaction untainted by the use of monopoly power. It should come as no surprise, then, that towards the end of this section of chapter 24 of Capital, Marx takes another jibe at 'the cleverness of Proudhon, who would abolish capitalist property - by enforcing the eternal laws of property which are themselves based on commodity production'.

The cumulative effect of the argument set forth in the first volume of Capital is thus devastating for petty bourgeois socialism. Whereas the latter had attempted to counterpose the law of value to capitalist exploitation and inequality, Marx demonstrates that the value form - in which products of labour interact according to the laws of market exchange - implies all the results rejected by petty bourgeois socialism: the 'tyranny' of a money-commodity, divergence of price from value, economic crises and class polarization. As Engels was to put it in Anti-Dühring, his critique of a similar sort of German 'socialist' economic theorizing:

The value form of products therefore already contains in embryo the whole capitalist form of production, the antagonism between capitalists and wage-earners, the industrial reserve army, crises. To seek to abolish the capitalist form of production by establishing 'true value' is therefore tantamount to attempting to abolish capitalism by establishing the 'true' Pope.

This, then, is the central flaw in all notions of market socialism: by accepting market relations (commodities, prices and wage-labour), market socialists must logically accept the inevitable consequences of these relations - exploitation, class inequality and economic crises. But market socialists fail to see this because they do not understand that without the market in human labour-power there is no generalized commodity exchange. If labour-power is not bought and sold, it will not have a market-determined value. And if this crucial input into every production process is not marketized, then commodity exchange will not be general, and goods will not have true market values (since the labour embodied in them will not have been priced by the market). The only true market economy is thus a capitalist economy with a generalized labour market - a point pursued in more detail in the next chapter. Market socialism thus means 'socialism' with wage-labour and exploitation - i.e. a non-socialism. All talk of market socialism is for this reason illogical and incoherent. This is why Marx insists that socialism requires the abolition of wage-labour - which can only mean the demcommodification of labour-power. The elimination of exploitation and class inequality is impossible without the abolition of the labour market. And this can only mean the demarketization of economic life. A consistent socialism can only be unrelentingly hostile to the market as regulator of economic relations.
NOTES TO PAGES 127-133

pp. 5-6, 34, emphasis in original (I have omitted emphasis in the original from the first part of this citation).
67. Ibid., pp. 15-30.

68. Ibid., pp. 68, 70. Note that the last part of this citation does contain a vague notion of labour exploitation, but again it is one that is market-based.
69. Ibid., pp. 26-7; see also ibid., p. 43.

70. Ibid., pp. 57, 39.

71. Ibid., p. 60.


74. Ibid., pp. 371, 58, 95, 127 emphasis in original.

75. Ibid., pp. 60, 155, 273, 274 emphasis in original, pp. 33, 16.

76. Ibid., pp. 31-7.

77. This point seems to me to have been largely missed by Noel Thompson, *The Market*, p. 109, who treats Gray as an advocate of a form of state socialism. It is not clear, however, in what sense Gray's position remained socialist by this time. In later works, as we shall see, he explicitly rejected socialism; moreover, even at this point, state regulation did not involve public ownership of the means of production. Private ownership was to remain the basis of economic life, and competition its motive force, in Gray's social system.

78. Ibid., pp. 59, 100 emphasis in original, pp. 103, 104.


82. Martin, p. 123.

83. Beer, 1, p. 236.


85. On Bray's life, see J. Carr, 'John Francis Bray', *Economica* 7 (1940), pp. 397-415, who shows that into his eighties Bray continued to participate in the American socialist and working-class movements.


87. Ibid., pp. 49, 50, 59, 61, 65, 69, 80, 84.

88. James F. Henderson, "'An English Communist', Mr. Bray [and] his remarkable work", *History of Political Economy* 17 (1985), pp. 73-75, an interesting article which, however, thoroughly misconstrues central Marxist concepts like capital, relative surplus value and money.


NOTES TO PAGES 133-141

91. Ibid., pp. 193-4, 194-208.


96. See PMG, 7 January 1832, 18 February 1832.


98. PMG, 21 July 1832.


100. Davenport, as cited by E.P. Thompson, *Making*, p. 796; for O'Brien's initial scepticism and subsequent enthusiasm, see PMG, 22 September 1832, 2 November 1833.


102. PMG, 29 September 1832.


105. Cole, *Century*, p. 31. See also Harrison, p. 206; Oliver, pp. 366-7; Gide and Rat, p. 252, n.1.


5. Proudhon did Enormous Mischief


4. Ibid., pp. 133, 167, 121-4.

5. Ibid., pp. 233, 235, 286. See also the Introduction to this work by George Woodcock, p. xiv.

NOTES TO PAGES 141–148

16. As cited by Hyams, pp. 102, 125.
19. Hyams, pp. 272–4, 63; Collins and Abramsky, p. 119.
22. "Mémoire des délégués français au Congrès de Gênes", as quoted in ibid., p. 117, n. 1; ibid., p. 118.
23. Ibid., p. 128. At Brussels the following year, Marx’s ideas were sufficiently influential to block mutualist resolutions.
25. Marx to F. Böls, 23 November 1871, as cited in ibid., p. 249.
29. Ibid., pp. 316, 317.
11. Karl Marx, *Theories of Surplus Value*, Part 3, trans. Jack Cole and S.W. Ryazanskaya (Moscow: Progress, 1971), p. 74. It should be remembered that independent commodity producers (including peasants) whose reproduction is market-dependent – i.e. they have market-determined money rents, must buy both producer and consumer goods on the market, and are thus compelled to raise cash through commodity production – are also governed by the market.
15. Karl Marx, 'Immediate Results of the Process of Production', in *Capital*, 1, p. 989; *Grundrisse*, p. 515. Of course, all of this entails some form of private ownership and/or control of the means of production; but this need not mean that certain individuals have a legal claim over the means of production, only that the latter are not owned and controlled by society. Alienated labour and the commodity form do entail a social and hence private, particularistic forms of ownership and control – but these forms are multifaceted, a point to which I return.