Eastern Economic Journal, Vol. IX, No. 3, July-September, 1983

THERE ARE TWO KARL MARXES!

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Up to this time Marx has been presented at best as a most successful theoretician of revolution, based on unsatisfactory social and economic conditions of disequilibrium inherent in capitalism and conceived in a most generalized form of total disequilibrium. The Communist Manifesto (1848) is probably the best piece of work of this nature before Vol. 1 of his Capital was published in 1867. We call this Marx No. 1 or the master of thinking in terms of total disequilibrium.

Upon more scrutiny of the text in Vol. 1 of Capital and using a new research program we found that there is another Marx--Marx No. 2, a thinker in terms of stable equilibrium. It is true that he did not reach the stage of formulating a theory of general equilibrium as did Walras less than a decade later, but he provided concepts and reasoning that are not only consistent with but in fact represent complementary elements of such a general theory.

An attempt will be made to prove with adequate text that the Marxian theory of stable equilibrium, as far as it was worked out, is clearly independent from his theory of surplus value and total disequilibrium. And when the pieces are put together, the conclusion emerges that under conditions of stable equilibrium (at the limit) the surplus-value = 0 (zero). Very probably Marx saw this conclusion theoretically and this may be a good reason why he was not interested to further investigate this line of thinking. He was primarily interested in a model where the surplus-value was far above zero, 100 percent or more, since only this could serve the purpose of advancing his revolutionary ideal. Thus his thinking in terms of total disequilibrium was best suited to his life goal.

Yet, as we shall see later, there is one fundamental equilibrium element--"numeraire" in the form of gold--which was retained by Marx even after he began the analysis of the (disequilibrium) phenomenon of surplus value. This confirms the hypothesis that elements of thinking in terms of equilibrium were not dead but just pushed aside by Marx No. 1. At the same time we must accept the view that the revolutionary side was the dominant character of his personality for the rest of his life. One more observation may be relevant. I know that other authors viewed Marx as dominated by two personalities--one when he was young and the other after he wrote the Communist Manifesto. I am not aware, however, that anyone else has previously characterized Marx side by side as a thinker in terms of stable equilibrium (like the

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classics) and as a thinker of disequilibrium (like modern economists).[19]*

1. Marx the Pure Scientist: The Equilibrium Concept of Gold-Numeraire

The presumption that Marx was against gold money and in favor of managed, manipulated paper money and monetized bank credit by the State--as is the case today in all socialist and capitalist countries--is erroneous. As we shall see further in more detail, Marx was a metallist in the classical sense of the term. According to the classical view which was crystallized in the law of general equilibrium by Walras,[20] money needs to be numeraire, that is, it must be kept at all times 100 percent covered and freely convertible in gold, silver or any other suitable commodity if we want it to fulfill properly certain monetary functions indispensable for a modern economy.

Where does Karl Marx stand on this issue? Usually the concept of the numeraire is attributed to Walras who indeed made it a basic requirement for his law of general equilibrium. Actually Walras only assumed it first and his genius immediately recognized all the fundamental consequences. He did not, however, undertake a thorough analysis to justify this concept. In fact, he was hesitant to pronounce openly that gold was the most suitable form of "numeraire"; instead he relegated this function to a special m-th commodity (la marchandise m-e) which theoretically is acceptable but is not strong enough for the practical side of the argument.

It was Karl Marx who a decade earlier emphatically and explicitly pointed out that gold and silver were the best suited metals to perform monetary functions. Even the description of the monetary functions in Marx is clearer and more complete than in Walras. Right at the outset of Chapter III on "Money, or the Circulation of Commodities. Section 1 The Measure of Values," Marx wrote: "Throught this work, I assumme, for the sake of simplicity, gold as the money-commodity."[21]

In Chapter I, "Commodity and Money (Part I)," Marx undertook a serious and systematic analysis to uncover an organic relationship between the elementary form of value inherent in useful commoditis and "money-form" of value as expressed in prices (exchange values) on open markets. The result was that the "universal equivalent form" (of value), as he wrote, "has now, by social custom, become finally identified with the substance gold." (p. 70) Here are the seeds of an objective theory of value, expressed in terms of gold-numeraire which can be conceived as independent of the subjective labor theory of value. We shall come back to this issue later but for the moment it is necessary to stress that in Part I of "Capital," Chapters I to III there is no trace of disequilibrium or surplus value. The descriptions are consistent with a model of stable equilibrium and an objective theory of value based on gold-numeraire.

After he proved analytically that there was an organic relationship between "money-form" of value as expressed in gold and the elementary-form of value when expressed in terms of utility of any commodity, Marx concluded:

> "Gold is now money with reference to all other commodities only because it was previously, with reference to them, a simple commodity. Like all other commodities, it was also capable of serving as an equivalent, either

*References are kept as in the original longer study.

as simple equivalent in isolated exchanges, or as particular equivalent by the side of others. Gradually it began to serve, within varying limits, as universal equivalent." (p. 70) (Underlining provided.)

Gold as a "universal equivalent" of value to satisfy the "general form of value" in Marx's sense is nothing but a more precise formulation of the concept of numeraire as used later by Walras.

2. Marx's Vision of Two Concepts of Money and Exchange

Of all the great economists, Marx appears to have been the first who correctly assessed that modern capitalism was of a mixed, inconsistent nature, composed of two contradictory forms of money and two similar types of exchange or circulation of commodities. There was no other economist at that time who used this simultaneous equilibrium versus disequilibrium approach. Knut Wicksell later, in the 1890's, made a distinction between two other contradictory elements under modern capitalism, namely--natural, real (equilibrium) and official, nominal (disequilibrium) rate of interest,[22] which more recently I extended to all other sources of income.[23]

Marx's masterful observation about the mixed nature of modern capitalism was expressed in this way:

> "The first distinction we notice between money that is money only, and money that is capital, is nothing more than a difference in their form of circulation.
>
> The simplest form of circulation of commodities is C--M--C, the transformation of commodities into money, and the change of the money back again into commodities, or selling in order to buy. But along side of this form we find another specifically different form...M--C--M, the transformation of money into commodities, and the change of commodities back again into money; or buying in order to sell. Money that circulates in the latter manner is thereby transformed into, becomes capital, and is already potentially capital." (pp. 146-147)

He called the first "the simple circulation of commodities" and the second the "inverted order of circulation", explaining why the second M in the scheme M--C--M must be greater than the M prime and the differential constitutes what he called "surplus value." Marx's observation of two divergent aspects of money and two contradictory forms of circulation of commodities represents conceptually the best theoretical formulation of modern capitalism.

From the historical point of view, a critical analysis of the "modern gold standard"--as explained elsewhere in more detail[24]--confirms Marx's observation of a dual composition of the monetary system of that time. Indeed the modern gold standard in reality was composed of about 10 percent gold-numeraire and 90 percent credit-money or monetized credit by modern banks with the support of the Central Bank. What Marx called "money that is money only" corresponds to the description of gold numeraire which he used in Chapter III for the development of his equilibrium theory of money. On the other hand, what he called "money that is capital" or "is already potentially capital" is in unison with the opposite, disequilibrium type of money in the form of monetized bank credit or anti-numeraire.[25]

But, alas, Marx did not see that his observation actually was connected with the

identification of two bipolar types of money, namely, the equilibrium form of numeraire-currency gold-money and the disequilibrium form of anti-numeraire (credit money). For him the distinction in question was "nothing more than a difference in their form of circulation" even though, as we shall see next, in Chapter III he developed the most complete (for that time) equilibrium theory of money. Marx failed to see the following relationships:

Model (1) Simple circulation of commodities (C--M--C) whereby M = numeraire (gold-money), that is, a special commodity (C = Gold) becomes oney and fulfills only monetary functions, or as Marx put it "money that is money only," and

Model (2) Inverted order of circlation (M--C--M') whereby M = anti-numeraire (credit-money), that is, monetized bank credit becomes capital when it is used to hire factors of production that brings about commodity C which thereafter is sold for a larger amount (M'), or as Marx expressed it, "Money that becomes capital."

The symmetry of the concepts used by Marx in the two distinctions is perfect. And yet for him M in both models was the same gold-numeraire, which is not true and cannot be true.

This was a fatal error of interpretation in an otherwise masterful observation. First, this error impeded him from perceiving analytically the separation line between a model of stable equilibrium (1) and another model of disequilibrium conditions (2). Secondly, this creates an antinomy in the Marxian theory of total disequilibrium with 100 percent surplus value. This antinomy, however, can be easily corrected by inserting the proper identification of "M" in each model and then his theory of surplus value remains valid.

3. The Material From Which Money is Created Matters!

No other great economist in modern times, not even Walras attempted to justify analytically why money in the form of gold and silver was best suited to perform monetary functions, but Marx did for his particular case--"money that is money only." In other words, why should gold and silver or any other suitable commodity--and not a simple convention of printing figures on a note or in the books of a bank--be money or more explicitly an equilibrium type of money? Here is the answer given by Marx:

> "The first chief function of money is to supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a universal measure of value. And by virtue of this function does gold, the equivalent commodity par excellence, become money." (p. 94)

The "material" from which money is created therefore matters. It is a subject of fundamental importance, according to Marx. Indeed, only when money is backed by a special commodity like gold can it serve effectively as a "universal measure of value" because only in that case does it have something basic in common with all other commodities and therefore can express their values as "magnitudes of the same denomination, qualitatively equal and quantitatively comparable." In the whole vast field of monetary literature no other well-known economist has ever explained so clearly and explicitly why it must be so.

4. the Neutrality of Gold-Numeraire

The gold problem is again being agitated in the West, and Keynesian apostles as well as some followers of Friedman's monetarism are wailing and full of panic that gold may be restored as money. In the socialist countries of the East all is quiet on this issue, even though in a 1971 COMECOM meeting in Bucharest, Romania, an official promise was made to restore the convertibility of the Russian ruble in gold, an operation which was supposed to be followed by the other member countries.[26)]

Usually the argument against gold is conducted from two directions. First it is pointed out that the value of gold nowadays is not stable, and as proof the fact is mentioned that the price of gold after the USA suspended the convertibility of the dollar in August 1971 has fluctuated erratically from $50.00 per ounce to $800.00 and then bounced back to $400.00. This proof is patently false, because what actually fluctuated was not the value of gold (measured by marginal utilities of equal quantities of gold as numeraire-units) but rather the value of the US paper dollar in which the price of gold was expressed. The other criticism is concentrated on the judgment that gold production is not sufficient to provide a normal supply of money and in addition hoarding may create horrible conditions of economic distress as it did during the Depression of the 1930's.

The two sides of the argument against gold do not fare well at all when confronted with Marx's incisive analysis and conclusions. Here are his own words:

> "It is, in the first place, quite clear that a change in the value of gold does not, in any way, affect its function as a standard price. No matter how this value varies, the proportions between the values of different quantities of the metal remain constant. However great the fall in its value, 12 ounces of gold still have 12 times the value of 1 ounce; and in prices, the only thing considered is the relation between different quantities of gold. Since, on the one hand, no rise or fall in the value of an ounce of gold can alter its weight, no alteration can take place in the weight of its aliquot price. Thus gold always renders the same service as an invariable standard of price, however much its value may vary." (p. 98)

From this quotation it is clear that, according to Marx, the first argument against gold appears groundless. And this conclusion is reinforced in the next paragraph where Marx wrote:

> "In the second place, a change in the value of gold does not interfere with its functions as a measure of value. The change affects all commodities simultaneously, and, therefore, caeteris paribus, leaves their relative values inter se, unaltered, although those values are now expressed in higher or lower gold prices." (p. 98)

This quotation leads to the conclusion that no inflation or deflation is possible as long as the monetary standard remains equal to a constant quantity of gold (a sort of natural parameter) and there are no anti-numeraire forms of money in the system. This is the true meaning of "pure neutrality" of gold-numeraire. This conclusion was not true in a modern gold standard because, as mentioned earlier, that system was diluted to an incredibly high proportion of up to 90 percent anti-numeraire in the form of credit-money.

In order to avoid further another common monetary confusion, Marx explained very clearly that a "general rise in the prices of commodities" could come either from a rise in their values (the case of a decline in the supply of goods) or from a fall in the value of money (an increase in the supply of gold-money). He concludes: "It therefore by no means follows that a rise in the value of money necessarily implies a proportional fall in the prices of commodities, or that a fall in the value of money implies a proportional rise in prices." (p. 99)

What is of fundamental importance to Marx is the requirement that the monetary standard remains a constant magnitude or a natural parameter. And he was absolutely right, because given a 100 percent numeraire-money and an adequate financial system and the fulfillment of other conditions of stable equilibrium, then no inflation or deflation is possible except natural price fluctuations which are simple and finite, as Walras later determined. In this perspective both Marx and Walras are thinkers in terms of stable equilibrium.

5. A Natural Law Which Regulates the Issue of Paper-Money

Marx turned then to "inconvertible paper money issued by the State and having compulsory circulation....The State puts in circulation bits of paper on which their various denominations, say $1, $5, etc. are printed." (p. 127) This is actually nominal, artificial, disequilibrium form of money or anti-numeraire when compared with gold-numeraire.

Is there any organic rule, derived from and consistent with the nature of paper money, that is, a sort of natural law which should govern the issue of this kind of money? Marx has one, very precise answer. He wrote:

> "In so far as they (the bits of paper) actually take the place of gold to the same amount, their movement is subject to the laws that regulate the currency of money itself. A law peculiar to the circulation of paper money can spring up only from the proportion in which that paper money represents gold." (p. 127)

There is a very clear message here; namely, that Marx in no way was in favor of paper money manipulated by the government for a five-year plan, for full employment or for any other purpose. And if there was any doubt about this interpretation, the text that follows speaks for itself:

> "Such a law exists; stated simply, it is as follows:
>
> The issue of paper money must not exceed in amount the gold (or silver as the case may be) which would actually circulate if not replaced by symbols." (pp. 127-128)

Marx very definitely saw that in order to have an objective solution to the problem of exchange value there was no way of avoiding the necessity to assume a numeraire-type of currency. He wrote: "Ony in so far as paper money represents gold, which like all other commodities has value, is it a symbol of value." (p. 128) We can be sure now that in monetary terms Marx as a pure scientist was a thinker in terms of stable equilibrium.

6. The Case of "Hoarding" As a Stabilizing Element in the Economy

Hoarding is another issue in which Marx stands at the opposite pole to the prevailing view of today, both in the East and the West.

Since the 1930's we have been bombarded to the limit with the idea that gold and its hoarding are an enormous social and economic calamity, responsible for a multiple of troubles in a national economy and lately also including international relations. At one time this subject was almost taboo, no longer to be discussed even in public meetings of scientists. Keynes successfully convinced an entire generation of economists that gold was a social evil, a barbaric relic--auri sacra fames.

A confrontation between Marx and Keynes shows how much the spirit of the time has changed, and the positions are very clear and definite. Keynes and his followers, including the monetarists of the School of Chicago, consider gold and its hoarding to be a menacing element, a perpetual source of troubles in a national economy. Marx, on the other hand, with his precise analysis, shows that the "hoarding of gold" is beneficial, a direct economic blessing since it cooperates for the realization of the same ultimate goal -- equilibrium and stability from within the system.

Notice next how skillful and objective is Marx in describing the aspects of this present most controversial issue. He wrote:

> "Hoarding serves various purposes in the economy of the metallic circulation. Its first function arises out of the conditions to which the currency of gold and silver coins is subject. We have seen how, along with the continual fluctuations in the extent and rapidity of the circulation of commodities and in their prices, the quantity of money current unceasingly ebbs and flows. This mass must be repelled in order to act again as more or less stagnant money." (p. 134)

First of all the expression, "the economy of the metallic circulation," identifies Marx's model of reasoning, which in this case appears to be close, if not the same, as that used by Walras less than a decade later under the assumption of an economy with 100 percent numeraire. Second, the vision of "ebbs and flows" in the monetary circulation as a counterpart to the "continual fluctuations" in the realm of circulation of commodities and their prices, matches very well the description of Walras' conditions of a general stable equilibrium under normal dynamics characterized by simple and finite price and income fluctuations.[29]

Certainly Marx No. 1, the revolutionary, could not be a friend of the hoarder, as evidenced in the next quotation:

> "In order that gold may be held as money, and made to form a hoard, it must be prevented from circulating, or from transforming itself into a means of enjoyment. The hoarder, therefore, makes a sacrifice of the lusts of the flesh to his gold fetish. He acts in earnest up to the Gospel of abstention." (p. 133)

Marx No. 2, the scientist, did not lose sight, however, of the fact that there was more to the issue, and continued:

> "On the other hand, he (the hoarder) can withdraw from circulation no more than what he has thrown into it in the shape of commodities. The more he produces, the more he is able to sell. Hard work, saving and avarice are, therefore, his three cardinal virtues, and to sell much and buy little is the sum of his political economy." (p. 133)

Even at this point one can envision that in an "economy of the metallic circulation" (Marx) or within a system of open markets with 100 percent gold-numeraire (Walras), "hoarding" becomes a constructive, positive and stabilizing element in the economy. The Marxian view of hoarding as an integral part of a system of general stable equilibrium emerges with even more force and precision from the text which follows:

> "In order that the mass of money, actually current, may constantly saturate the absorbing power of the circulation, it is necessary that the quantity of gold and silver in a country be greater than the quantity required to function as coin. This condition is fulfilled by money taking the form of hoards. These reserves serve as conduits for the supply or withdrawal of money to or from the circulation, which in this way never overflows its banks." (p. 134)

The condition of a monetary circulation which "never overflows its banks" actually mirros the constitution of a normally dynamic stable general equilibrium where neither inflation nor deflation (open or hidden) may develop beyond simple and finite price fluctuations due to natural, inevitable changes in the real supply of and demand for economic goods.

In recognizing the stabilizing forces embedded in an "economy of the metallic circulation," Marx did not forget to add another factor which makes more perfect the picture of general equilibrium, from the monetary point of view. In this connection, he wrote:

> "By the side of the gross form of hoard, we find also its aesthetic form in the possession of gold and silver articles. This grows with the wealth of civil society." (p. 134)

With this additional factor of gold and silver articles, which, whenever necessary, can be converted into official a developed or developing economy approaches the limits of an ideal numeraire, L monetary system, capable of expanding when the economy would grow under conditions of optimism but without inflation, and vice versa flexible to contract under opposite conditions but without deflation and mass unemployment.

Notice how elegantly Marx describes this additional factor of "aesthetic form" of hoarding:

> "In this way there is created, on the one hand, a constantly extending market for gold and silver, unconnected with their functions as money, and, on the other hand, a latent source of supply, to which recourse is had principally in time of crisis and social disturbance." (p. 134)

Any further commentary on the issue of gold and silver hoarding in a free society (capitalist or socialist) is superfluous. Marx has supplied in this respect a masterful piece of monetary analysis, unequaled in literture, valid today more than ever.

7. "Universal Money" and the Law of International Stability of Gold-Numeraire

If there is the slightest doubt about the ideal concept of money being represented by gold, silver or any other suitable commodity, this doubt completely dissipates when Marx treats this subject at the international level.

"It is only in the markets of the world that money acquires to the full extent the character of the commodity whose bodily form is also immediate social incarnation of human labor in the abstract. Its real mode of existence in this sphere adequately corresponds to its ideal concept." (p. 142)

According to Marx, therefore, the ideal concept of money is embodied in commodity-money, respectively gold- or silver-numeraire, and this fact cannot be changed by any other interpretation since he left no room for other interpretations on this issue. It was completely clear in his mind that we cannot use artificial, nominal substitutes for gold and silver if we want an adequate, reliable and objective solution to the problem of establishing exchange values for commodities and services traded at the national and international levels. How wrong were those experts who, ignorning sound advice.[30] pushed the International Monetary Fund to shift from genuine gold reserves to an artificial (nominal) substitute--Special Drawing Rights (SDR) euphemistically called "paper gold." Soon history will give its verdict on that fatal change. The signs of instability and confusion in international markets and financial relations are already written on the wall for those who want to see!

Marx arrived at his conclusions by recognizing the qualities of gold as numeraire after mature thought and objective analysis concerning the problem of value of exchange, since based upon his social philosophy, he cannot be accused of gold-fetishism. It was rather his deep conviction as a result of scientific analysis that especially in international relations there was an absolute need for a reliable standard to measure values and claims and in addition to provide "hard cash" for the final settlement of differences in the balance of payments, and this could not be performed successfully except by using gold or silver money. For him, gold and silver was "money of the world" which "serves as the universal medium of payment, as the universal means of purchasing, and as the universally recognized embodiment of all wealth. Its function as a means of payment in the settling of international balances is its chief one." (p. 143)

The theory of holding cash balances as reserves at the national and international level is also precisely formulated in Marx when he wrote:

"Just as every country needs a reserve of money for its home circulation, so, too, it requires one for external circulation in the markets of the world. The function of hoards, therefore, arises in part out of the function of money, as the medium of the home circulation and home payments, and in part out of its function of the money of the world. For this latter function the genuine money-commodity, actual gold and silver is necessary." (p. 144) (underlining provided)

After reading this text one cannot escape the conclusion that in monetary terms Marx No. 2, the pure scientist, was a thinker of stability-from-within the system, or stable equilibrium. In continuation he describes with equal clarity what may be called the law of international stability of the gold-numeraire. This law implies a free circulation of gold reserves from one country to another and the application of the gold-points mechanism and free floating exchange rates that, in this particular case, would have strictly limited fluctuations determined by the cost of transportation and insurance per unit of gold. Free foreign exchange rates floating in this case is entirely different from the current aberration of floating rates under conditions of anti-numeraire where there are no definite limits to fluctuations since the system has no self-regulating mechanism. In other words, the law of supply and demand without gold- or silver numeraire is a mechanism of aberration with indeterminate fluctuations, both in domestic and foreign exchange markets.

Marx identified further streams of gold and silver movements. One stream refers to the countries which produce gold or silver and therefore need to exchange these precious metals for other commodities imported from the rest of the world. The second stream is connected with the continuous settlement of differences in the balance of international payments. In Marx's words:

"On the other hand, there is a continual flowing backwards and forwards of gold and silver between different national spheres of circulation, a current whose motion depends on the ceaseless' fluctuations in the course of exchange." (p. 145)

This "continual flowing" back and forth of gold and the "ceaseless fluctuations" of foreign exchange rathes, both within very narrow limits, describe the self-regulating mechanism of gold-numeraire in its external aspect of stability exactly as explained earlier that the "ebbs and flows" of the domestic circulation of the same type of money depicted internal stability. Due to such automatic changes and of relatively small magnitude on a continuous basis, in the system of a genuine gold standard, as envisioned by Marx, there is no chance for cumulative deficits or surpluses in the balance of payments of a given country. This is also the system which offers the highest degree of economic independence for a free country.

8. Two Distinct Theories of Value in Marx

Sufficient evidence is at hand to conclude that there are two independent or superimposed theories of value in Marx. The first is the well-known labor, subjective or disequilibrium theory of value which attributes value only to one factor, "socially necessary labor," and negates the legitimacy of any other source of income such as rent, interest and profit. It is subjective in the sense that it is based on a personal value-judgment of Marx No. 1, the revolutionary. This is the concept which he forged to serve the purpose of inciting the working class against the bourgeoisie and thus prepare the revolution. An example of this concept can be read in Marx:

"We see then that that which determines the magnitude of the value of any article is the amount of labour-time socially necessary for its production." (p. 39)

And this thought is repeated like an echo again and again.

We have to understand that "socially necessary labor" for him was an ad hoc abstract construction conceived to explain an otherwise correct observation that there was a significant gap between use-value and exchange value in the capitalist system. This correct observation has to be connected further with the inverted order of circulation (M--C--M') ending with the theory of surplus value. The labor theory of value, with few exceptions,[31] is almost completely discredited among scientists. Marx the revolutionary amalgamated all the factors of production into one, and then deus ex machina, he decreed that only labor is productive so that all other factors deserve no legitimate income.

The second theory, or the utility, objective, or equilibrium theory of value is connected with the simple circulation of commodities (C--M--C) and can be developed from the Marxian analysis of the money-form of value when money (M) = gold-numeraire. We may visualize that the first C at the origin represented gold as a simple commodity which was converted into numeraire (M) and the numeraire later was exchanged for another commodity (C). And this is the line of thinking in equilibrium terms when there is no surplus value.

In one place Marx wrote: "Lastly nothing can have value without being an object of utility. If the thing is useless, so is the labour contained in it; the labour does not count as labour, and therefore creates no value." (p. 41) (Underlining provided) If this is Marxian thinking, too--which I think it is when referring to Marx No. 2--then logically not labor per se but utility is the source of, or creates, value. And from here, the road is open to the theory of marginal utility which Walras, Menger and Jevons independently have developed in the 1870's.

The utility or numeraire-form of value in Marx can be traced to what he called the "elementary form of value" which "is contained in the equation, expressing its value-relation to another commodity of a different kind, or in its exchange relation to the same." (p. 60) In his example, the equation was given as 20 yards of linen = 1 coat. Then later he introduced gold-numeraire to serve as the universal equivalent capable of expressing any "form of value in general."

The final result of his analysis using gold as the universal equivalent is given as follows:

20 yards of linen	=	)	
1 coat	=	)	
10 lbs. of tea	=	)	
40 lbs. of coffee	=	)	2 ounces of gold
1/2 ton of iron	=	)	
....		)	
x Commodity A	=	)	

In all these examples we seem to be faced with an objective or equilibrium theory of value where there is no trace of surplus value and where we are not forced to accept or assume the other labor theory of value which, in fact, can be discarded altogether without producing any harm to the Marxian utility or equilibrium theory of value.

The transition from the subjective labor theory to the objective utility theory of value in Marx can be smoothed with some other additional considerations, again without distorting Marx's genuine contribution. First, for him the factor "labour process" was composed actually of three factors: "(1) the personal activity of man, i.e., work itself; (2) the subject of that work like raw materials and in general mother Nature; and (3) its instruments" or tools of mechanical, physical and chemical nature used in production or what is called capital. (pp. 178-179) In this description we find the three classical factors: Labor, Nature and Capital, with the untenable qualification that labor alone was productive.

Secondly, the expression "socially necessary labour" following the composition of the Marxian concept of "labour process" can easily be converted into "socially necessary economic activity" or socially necessary cooperation of the factors of production. Then again a door is open to the theory of social marginal utility, which actually explains the determination of prices or exchange values in a system of stable equilibrium.

The common theory of subjective marginal utility in any case needs to be extended into a theory of social, objective marginal utilities. This corresponds to a logical and empirical distinction between personal, subjective and social, collective values with the

latter providing a solid basis for the develoment of Economic Ethics as part of Social Economics conceived as a science and explained in more detail elsewhere.[32)] Marx was very much interested in social, collective values.

Marx assures us that there is no surplus-value in the above objective theory of value when he stated:

> "In the simple circulation of commodities, the two extremes of the circuit have the same economic form. They are both commodities, and commodities of equal value." (p. 149

Indeed, in a system of stable equilibrium the "two extremes (C...C) are traded at equilibrium prices expressed in the same numeraire (M) and therefore are of equal value. Further on he was even more emphatic on this issue: "If commodities, or commodities and money are exchanged, it is plain that no one abstracts more value from, then he throws into circulation. There is no creation of surplus value." (p. 160) (Underlining provided)

What can be stressed as remarkable is the fact that in retrospect the development of the equilibrium monetary thought of Marx in 1867 (when Vol. 1 of his "Capital" was published) anticipated and pioneered the monetary order associated with the law of general equilibrium as formulated by Walras only seven years later. It would be interesting to study how much knowledge Marx had about the work of those who participated in the conception of the Robert Peel Act of 1844 where, also, an equilibrium monetary order was intended but unfortunately not achieved, as explained elsewhere.[33)] But Marx, as already mentioned, did not have much interest in the study of stable equilibrium or in the identification of stable elements in the capitalist system. Instead his attention was concentrated in what was wrong in the system, respectively in problems of disequilibrium.

Marx the revolutionary social reformer was stronger than Marx the pure scientist. This explains how at times he fouled in some issues of pure analysis. But the recognition of two theories of values in Marx throws a new light upon his contribution to the pure science of economics, much greater than that which emerges from orthodox interpretations that say there was only one Marx-the revolutionary but no pure scientist.

9. The Benefit in Distinguishing Between the Two Marxian Personalities

The remaining question is: What good can come from making a distinction between two personalities in Marx--the revolutionary and the pure scientist? The consequences are very serious and far-reaching in appliction, both in matters of theory and practice.

a. Karl Marx the revolutionary was successful in changing the life of one-third of the world population but did not live long enough to see how the experiment bogged down into a "frozen revolution." The Marxian theory of monetary equilibrium, on the other hand, provides a new vista in assessing a proper evaluation of the present day financial and economic difficulties and gives a strong hint where the right solution lies both in socialist and capitalist countries.

   The heart of the matter is that we now have an answer to the basic question: "Following the success of a Marxian revolution in a country, what is to be done in order to construct from zero level a new, better socialist society of tommorrow?" This answer is: Improve and rigorously apply the thinking of Marx

No. 2, the pure scientist, who, in the back of his mind, also bore the image of such a new, better society of tomorrow based on conditions of stable equilibrium. Of course, on this side of the fence, Marx has to be viewed as a peaceful social reformer in the same category as Walras. And this is not an untenable assumption, because if he could come back and see the results of the frozen revolution, he more than likely would have second thoughts and eventually would become a peaceful reformer.

Reversing the question: "What should be done in a capitalist country in order to avoid the Marxian revolution?" The answer is: Improve and rigorously apply the thinking of Leon Walras to whom can now be added Marx No. 2. One can see that a recognition and revival of the equilibrium monetary heritage of Marx could ignite a serious challenge in economics by shedding new light on the path toward better solutions to the plethora of problems besetting both socialist and capitalist countries alike today.

b. A numeraire-currency and financial system based on gold or silver in a socialist country--not in spite of but according to Marx No. 2--would increase to a maximum stability-from-within the system and consequently give a boost to net productivity at no extra cost.

c. A numeraire-currency and financial system would reduce to a large extent arbitrary political power as being unnecessary in a system of stability-from-within. This would enlarge the foundation of democracy in a socialist country and assure that political decision may be taken with the consent of the majority and respect for personal freedoms.

Of course, these are only analytical consequences and the practical side consistent with them must still be worked out, as will be shown later in the continuation of this study. Nevertheless, for all these indicative social, economic and political benefits, if there was no Marx No. 2, we would have to invent him. Fortunately he is there, and all we need to do is to re-examine the available text he left following the new research program of a simultaneous equilibrium versus disequilibrium approach.

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