



Böhm-Bawerk

The Man Who Answered Marx

DEAN LIPTON

IT IS A SAFE BET that for every million persons who have heard of Karl Marx not more than one or two can recall the name of Eugen von Böhm-Bawerk. In a major sense, this is unfortunate, for Böhm-Bawerk was the man who answered Marx.

Nevertheless, it is quite understandable. Marx was primarily a propagandist, a polemicist, a gifted sloganizer. His life story from the time he was the editor of a radical newspaper in Germany to the years he struggled for control of the First International was the deliberate attempt to sway

the minds of men. He was a politician in the guise of journalist, philosopher, and economic thinker. About all this, Böhm-Bawerk could not have cared less. He was the dedicated scientist searching for truth. He refined economic ideas and concepts in a way that few others ever had or could. Where Marx borrowed heavily — and uncritically — from any past economist whose ideas could help him prove a point, Böhm-Bawerk would cut away at their falsity, never concerned with anything except arriving at the core of essential truth.

It was, of course, only natural that he would eventually clash with the ideas promoted by Karl

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Marx. They were starting their ascendant curve during the time Böhm-Bawerk was growing into manhood and beginning to think about the shape of the world, and the principles upon which human freedom and prosperity were based.

Two Lines of Thought

Eugen von Böhm-Bawerk was born in 1851. Three years earlier Marx (and his collaborator, Friedrich Engels) had published *The Communist Manifesto* containing the ringing declaration: "WORKERS OF THE WORLD UNITE! YOU HAVE NOTHING TO LOSE BUT YOUR CHAINS." In 1867, when Böhm-Bawerk was just sixteen, there appeared the first volume of *Das Kapital*, the book which was to become the bible of so-called scientific or modern socialism.

Many of the young European intellectuals were swayed by Marxist ideas, but there is no record that Böhm-Bawerk ever was. In part, this was probably due to his teacher and mentor, the famous Carl Menger, who among other things formulated the important theory of marginal utility. At first, Böhm-Bawerk was only one of a group of brilliant, young economists gathered loosely around Menger, originating the renowned "Austrian" school of economics.

But, in time, he surpassed them all, becoming the master, the man whose work left the greatest impact. Historically, he and the other "Austrian" economists performed two important and vital functions. First, they made corrections in the inaccuracies they saw in the work of the "Classical" economists, even daring to take on such masters of the past as Adam Smith and David Ricardo. Secondly, they were the main economic critics of Marx and his followers in the closing years of the nineteenth century and the opening years of this one.

There was another curious paradox between Karl Marx and Eugen von Böhm-Bawerk which should be mentioned. The politically-minded Marx never held public office. He was unable even to hold all of his followers, all the men who thought in a general way like him, together in the one enclave he knew was necessary for the quick seizure of power. Proudhon quarreled with the Marxists during the volatile days of the Paris Commune. The Marxists expelled Bakunin from the International. Lassalle broke with Marx to form his own Socialist party.

The nonpolitical Böhm-Bawerk was appointed Minister of Finance in three different Austrian cabinets (1895, 1897-98, and 1900-04.)

But in each instance it was the office seeking the man. Böhm-Bawerk had no political ambitions, but the political leaders of the Austria of his time knew that he had no peers in the fields of economics and finance. The post he enjoyed most was the one he held for a long time as Honorary Professor of Political Economy at the University of Vienna.

Capital and Interest

Even if Böhm-Bawerk had not exposed the Marxist fallacies, his work would have had lasting significance. He was among the first to explore the complicated labyrinth of price fluctuations. Although many have tried, no one has successfully supplanted his two theories of interest. Here, it is only fair to point out that both were hinted at by Nassau William Senior, an English economist, in 1836. However, Senior had left them in an unfinished state, and it was Böhm-Bawerk's work which pointed up their importance.

In the abstinence theory, he demonstrated that interest was compensation for the postponement or waiting for the satisfaction of a person's wants. While this idea may seem commonplace today, it wasn't in Böhm-Bawerk's time. His second theory dealt with the importance of interest to the productive process. He insisted

that it was the most efficient way to secure capital investments, stating that even a socialist state would have to make use of it, or some equivalent, if it were to survive economically. The experiences of Soviet Russia in the years immediately following the Russian Revolution proved him right.

In 1894, the final two volumes of Marx's *Das Kapital* were published posthumously. They had been edited from Marx's notes by his long-time associate, Friedrich Engels, and we, of course, have no way of knowing how different they might have been if Marx had lived to do his own editing. However, the chances are reasonably good that the two versions would not have differed in any significant respect. Marx and Engels were intellectual twins. A common thread running through all of their ideas was the "exploitation of labor." According to them, every economic process of a free society was designed to exploit the workingman.

With his usual logical thoroughness, Böhm-Bawerk disposed of this argument in whatever Marxist theory it occurred. Marx argued that interest was derived only by exploiting labor. Böhm-Bawerk answered this contention by pointing out that if interest were the just compensation for saving as he conclusively proved

in his abstinence theory, and absolutely essential to the productive processes of a modern industrial nation, it could not be exploitative in the Marxist sense.

Another sample of Marxist reasoning was that all the profits of the entrepreneur and the capitalist were "surplus value" created by labor. If labor had not been exploited, there would be no profit. The corollary to this, of course, was that all so-called "surplus value" should be returned to the worker.

Böhm-Bawerk pointed out that as long as a major part of "surplus value" was re-invested in a nation's industrial capacity – and not used to satisfy the capitalist's or entrepreneur's personal wants—it went back to the people in an ever-rising standard of living. In another one of his uncanny predictions, he foretold that under socialism "surplus value" would not be returned to labor, any more than it was under capitalism. If it were, the socialist nation would lack the means to build or maintain an industrial economy. Again the experiences of both Soviet Russia and Communist China proved him right. In fact, both Russia and China expropriated so much of the worker's product that millions of people were deliberately starved, so that rapid industrialization could be achieved.

Labor Theory of Value Exposed

But it was on the Marxist Labor Theory of Value that Böhm-Bawerk turned the full force of his powerful mind. The idea that labor "created" value did not originate with Marx. Sir William Petty developed something like it two centuries earlier, and Ricardo devised a similar theory. Marx borrowed the Ricardian concept, and added a few sophisticated touches to it. He himself admitted that his whole theoretical structure rested upon the Labor Theory of Value, and that if it could be disproved, "scientific" socialism would be rendered invalid.

After Böhm-Bawerk finished demolishing it, there was not a single major economist who would accept the Labor Theory of Value as anything other than an interesting historical oddity. Even many branches of World Socialism, such as the Fabian Socialists in England, discarded it as untenable.

The "ambiguities and contradictions" in Marx's language offended good sense, Böhm-Bawerk pointed out. Marx claimed that the value of a product was determined by the "socially useful" labor involved in its production. Böhm-Bawerk found the phraseology meaningless, and pointed out that it differed little from Adam Smith's distinction between productive and

unproductive labor. Smith had used the artisan as an example of productive labor and the menial servant to illustrate unproductive labor. Böhm-Bawerk stated that if the servant's efforts released his master to perform productive work, then his labor was also productive.

The universal application of Böhm-Bawerk's analysis can be seen by taking the case of a widow with young children who re-enters the labor force as a stenographer. Without someone to care for the children, she would be unable to work, and so the girl she hires as a baby sitter certainly performs productive or essential work.

Utility, Scarcity, and Choice

To demonstrate the validity of the Labor Theory of Value, Marx used the diamond, insisting that it was valuable because of the amount of labor expended to mine it. In other words, a diamond at the bottom of a deep mine shaft requiring the work of many men to dig would be worth more than a diamond found accidentally on the surface of the ground. Quite obviously, any diamond merchant who estimated the worth of a stone on this basis instead of the usual reasons such as the number of carats or its crystalline flawlessness would go out of business in short order.

To Marx, value was a concrete condition created in much the same manner that an article might be manufactured. To Böhm-Bawerk, it was a relative system of measurement depending at any time on external factors. He demonstrated that the Marxist concept failed to take two important elements into consideration: utility (or usefulness) and the nearly-equally important subjective quality of want or desire. Despite the appearing solidity of the Labor Theory of Value, it was nebulous, vague, and unpredictable. It lacked every characteristic that a science was supposed to have. Conversely, the Böhm-Bawerkian law worked with mathematical precision.

It could be summarized into the following formula:

1. Utility is the basis of value.
2. Scarcity is the measure of value.
3. Price is the evidence of value.

Nothing is valuable unless it is in some way or degree useful. The decrease or increase of its value is dependent on the rise or decline of its supply. Valuable goods are costly either in terms of other goods or money. To this he added another factor for the determination of price: the subjective quality of want. If no one wanted an article — no matter how scarce it was — its price could hardly be very great.

The importance of want or de-

sire is self-evident. The more the seller values an article, the higher his asking price will be. The more the buyer wants the article, the more he is willing to pay for it. This, of course, works in reverse. The lower the buyer's personal evaluation of an article, the less he will be willing to pay for it. If a seller places little value on an article, he will be willing to sell it for a low price.

Subjective Value Judgments

Böhm-Bawerk covered all possible criticism before it could be leveled. He did it so well that the Marxists ever since have found themselves in the position of having to answer the unanswerable. Take the way he disposed of any future objection to the utilitarian basis for value in his monumental work, *The Positive Theory of Capital*,* for instance. After noting

that such infinitely more useful items as bread and water ordinarily are far less valuable than diamonds or pearls, he points out that they only appear to be because under normal circumstances they are in such abundant supply while pearls and diamonds are relatively rare. But when food becomes scarce, the value of a sandwich to a starving man is far greater than that of a large and flawless diamond. A man dying of thirst in the desert will run first to a canteen of water before he even considers the bag of pearls lying a few feet away.

Böhm-Bawerk finally concluded: "Thus those very facts which, at first sight, seemed to contradict our theory that the amount of value is dependent on the amount of utility condition, on closer examination afford a striking confirmation of it." ♦

**The Positive Theory of Capital* is now included as Part II in a 3-part translation of Böhm-Bawerk's *Capital and Interest*, published by the Libertarian Press and also available from the Foundation for Economic Education at \$35.00 in a boxed 3-volume edition, or \$17.50 in a single volume.

The Foundation also stocks *Human Action, Theory and History*, and several other books by Dr. Ludwig von Mises, student of Böhm-Bawerk, and the leading living exponent of the Austrian School.

A Miracle?

RICHARD D. HAMMOND

If I hadn't been there, I would hardly have believed it myself. We decided to "do it ourselves." Such a decision can scarcely be described as a miracle, although these days it seems almost like one.

It happens that some time ago I was asked to serve on an advisory board of a voluntary organization that helps the handicapped to help themselves. This is a fine organization, with a worthy purpose, certainly.

The time came for an expansion of facilities. The director came to the board with a well-worked-out proposal which involved our raising \$20,000 so that we could qualify for a 4 to 1 Federal grant which would give us \$80,000. He described this "opportunity" as "growth money."

When I attempted to point out

what the multiplicity of "Federal grants" was doing to our economy, our dollar, and our debt, I felt that I was looked at with a fishy eye by the director, the chairman, and my fellow board members. When I suggested that we might save some money by obtaining good used equipment, I was told immediately that the Federal grant specified only new and the latest equipment.

At a second meeting on the subject, and after further planning on how to qualify for the grant, I finally said, "Sorry, men, our motives are good, but our means are bad, and I'll just have to drop off the board. I can't go along. If you want to raise what money we need for serviceable equipment, on a voluntary basis, I'll do my best to help. But I can't be a part in taking the money, extracted from others by force, for even as worthy a project as this."

Where's the miracle? Well, after

This article is from a recent letter by Mr. Hammond, a Maryland business association executive.