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Comparing Marx and Menger

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Abstract:

Both Marx and Menger are the originators of two vivid and highly recognisable schools of economic thought with long-lasting marks. Despite somehow simplistic reductions which lead to opposing them, their differences do not summarise the whole extent of their analysis. Without underestimating those discrepancies, a number of similarities can be put forward. When it comes to the very heart of their analysis, namely their theories of value, common philosophical sources, parallel paths of inquiry and comparable methodologies can be made more salient. The causal links they establish between value, prices and money appear to be in both cases fundamental for the rest of their intellectual constructions. An interpretation of their value theories is attempted along their common distinction between use and exchange value with respect to its subjective and objective dimension.

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I. Introduction

The fact that value lays in the relationship of an individual to a good is well established. This grounds the origin of value in each individual. Along with the acceptance of individuals as being voluntaristic and intentional by nature, gives value a subjective origin. Each market participant therefore estimates the importance of the use or the exchange of a given good. Put differently it spells what one wants *from* or *for* that good. That is a well known distinction that can be traced back at least as far as Aristotle. However a different line of distinction can be introduced along the interactional nature of social life. As a matter of fact one may speak of *subjective* as well as *objective* value. Consequently four different types of value can be defined: subjective use-value and exchange-value and objective use- and exchange-values. The articulation of those types of value sheds some extra light on the origin and the nature of this central economic concept and its connection with *intra-* (or *infra-*) *individual* and *inter-individual* preferences, as well as the feedback loops induced by interactions and social norms of behaviour.

As the concept of value explains individual behaviour it therefore conditions the interactions between market participants which in turn result in the price system both relative and nominal. Hence the economic literature is said to have mainly concentrated on the establishment of a relative price system between goods[2] which grounds the monetary prices. Meanwhile two major authors, namely Karl Marx and Carl Menger have adopted and developed a far more philosophical, say conceptual approach of the notion of value. A comparative re-examination of their understanding of value is a starting point for an explanation of the shift from value which is qualitative to prices which are quantitative. This in turn corresponds to the transformation of individual exchange plans into actual exchange patterns, put differently from decision to action.

As Marx and Menger have both originated two deeply rooted in philosophy influential and competing approaches to economic life, their understanding of the logical links between value, prices and money appears to be in the heart of their theoretic systems. Explaining value, its origins and forms contributes to explain their vision on money, monetary functions and the price system. Such a comparison shall therefore go beyond the exposition of the mere differences and oppositions that can be found between their respective theories. On the contrary it shall firmly

[2] See for instance the opinion of Schumpeter (1954:561) where he points out that "nobody raised the theoretical question whether it is really possible or admissible to carry out the fundamental analysis of the price system in terms of exchange ratios or relative prices alone".

ground these central for the science of economics notions, namely value, prices and money, on a solid philosophical basis and contribute to clarify the causal links that can exist between them.

After briefly presenting the different types of value and the factors determining them, the question of the "essence" or "substance" of value is raised in respect to both Marx and Menger's approaches. This consequently directs the discussion upon the measurement of value – that is commensuration – as a central issue for economics. The process of establishment of monetary prices is then examined by taking into account the role and nature of money those two authors see for it. Last the comparison emphasises on their irreducible divergences despite them sharing many philosophical grounds and their common interest in what is behind the veil of mere appearance.

II. Types of values or the value matrix

By value we understand the links of importance, dearness and volition between an individual and a thing. This allows for including both the intentions of the subject for the object, as much as the positive effect of the object on the subject. Hence value is to be seen being both subjective and objective.

a. objective and subjective value

While the subjective character of value is easily visible in the fact that the subject[3] is the depository of volition towards the object, the objective character of value calls for an investigation in the nature of the thing and its impact upon the individual. Here objectivity may easily be confused with intrinsicality. This of course immediately reminds of the famous paradox that Condillac[4] makes explicit in respect to value. And it is worth pointing out here that the notion of an intrinsic quality of a thing is just as far from what its objective value is, as physiological needs are distinct from desires: simply outside or beyond the scope of economics[5]. A ready-made separation line is drawn between what the thing objectively is or does to the individual and what it is subjectively thought to be or to do. Still this remains somehow

[3] In medieval Europe men were to be valorous while things had only prices. Moreover, the use of the Latin *pretium* for "price" – probably related to ancient Greek περνάω – dates back to the XIII century.

[4] Étienne Bonnot de Condillac, abbot of Mureau (1776), *Le commerce et le gouvernement considérés relativement l'un à l'autre : ouvrage élémentaire*, Paris: Imprimerie de Ch. Houel, 1798, pp. 14-16.

[5] On this point see Mises (1944), "The Treatment of „Irrationality" in Social Sciences", in *Philosophy and Phenomenological Research*, Vol. IV, N° 4, June 1944, pp. 535 and following.

unsatisfactory because it leaves the notion of objective value heavily dependent on intrinsic, say physical quality. In order to correct this one can therefore rely on the Kantian transformation of the "objective" into "inter-subjective" that which is outside the individual beyond its subjective measure, but yet is still human. Therefore the objective character of value is extrinsic to the thing. To put it simply, subjective value is of the realm of the individual and as such is a cornerstone of action, while objective value falls under the social – extra individual – realm, wherever this is solidly based upon scientific findings or merely on "common sense", which can be seen as a framework of possible actions. Or to use Bukharin's ([1919] 1927: 67) words while interpreting Böhm-Bawerk's presentation of the Austrian School of Economics, subjective value is a matter of "the laws of formation of individual evaluations", while objective value is subject to the "laws of the origin of their resultant". Relying on the treatment of the question Böhm-Bawerk (1886: 4) gives and quoted by Bukharin (1927: 62), objective value is the "virtue or capacity of a commodity to bring about a certain objective result". This in turn asks for the value of the result itself. However if one relies on the idea of *a priori* explanation of action, the value of the result itself is to be replaced with the value of that result perceived on the basis of knowledge related to the physical characteristics of the good.

b. the purpose of the thing

Along the subjective/objective distinction of value another separation line is established through the actions taken in respect to the thing. It is often and readily recalled that the distinction between use-value and exchange-value is owed to Aristotle. Any economically significant object is to be seen through a double prism of importance: in its capacity to be employed for its purpose as such and in its readiness to be engaged in an act of barter. While the first does not immediately appeal for an interactional, say social, consideration, the second clearly puts forward the question of justice and fairness of trade and hence interpersonal commensuration. Nevertheless the character of the thing being useful to an individual is primordial as it justifies the interest and volition of the subject for the object and also conditions its exchange-value in the interactional social space.

This double distinction line provides for four types of value as both subjective and objective values spread in use- and exchange-value. Nevertheless, the question of what is value stands still.

Types of value	Use-value	Exchange-value
Subjective value	Usefulness (utility)	Dearness
Objective value	Goodness (*la bonté*)	Scarcity

Table 1. The value matrix

The above table shows the types of value accordingly to the different uses or purposes of the good and the prism of interaction it is seen through. The keywords provide the ground for the establishment of those types of value and for an explanation of its substance. Usefulness or utility are to be understood as the sentiment or opinion of satisfaction to be experienced by possession of the good. While dearness has a sacrificial dimension of how effortful obtaining or surrendering the good is. Goodness encompasses the idea of impersonal quality of the good to individuals[6]. Finally the notion of scarcity is clearly of interpersonal nature and has little to do with total available quantities of goods, but rather with potentially desired and effectively exchangeable amounts of them.

This simple presentation of the different types of value offers the advantage to clearly articulate the different links of substance and essence Marx and Menger examine in their treatment of the matter.

III. The question of essence

Driven by an Aristotelian essentialism, both Marx and Menger provide an abstract concept of value. They both examine the double Aristotelian inquiry of how to live together peacefully and harmoniously and its corollary interrogation of justice that brings forward the question of commensuration in social interactions. Commensuration then takes the shape of prices and therefore calls in the question of value. As it enters the stage, value asks for a clarification of its nature and essence. Both Marx and Menger give the question of the nature of value a central place in their intellectual constructions. By doing so, as Hong (2000: 95-98) argues, they both depart from the other high-profile representatives of their respective schools – namely Smith and Ricardo for Marx and Jevons and Walras for Menger – who merely focus on explaining exchange ratios among things of economic importance. Along this, their Aristotle-inspired

[6] A simple example of tobacco products and spinach shall suffice to illustrate this point.

essentialism is well known and accepted[7]. Therefore it shall not be a surprise that in the heart of their major works lays the question of "what value is".

a. the path of Marx or value by convention

The property of a thing being useful is clearly stated to be the entrance gate of value in the human world. Marx (1867: 26) for instance appeals to both Nicholas Barbon and John Locke when he declares that "the utility of a thing makes it a use value". This "intrinsick vertue" in Barbon's words (1696: 6), or the "natural worth [of things] to supply the necessities, or serve the conveniences of human life" for Locke (1691: 28) clearly reminds the goodness (*la bonté*) present in Turgot's writings[8]: "one can only understand therefore the goodness of an object relative to our pleasures. Albeit this goodness is relative to us, we have in mind, while applying the word *value*, a real quality, intrinsic to the object, through which it is appropriate to our usage" (Turgot [1769]) of whom Marx was perfectly aware, see Marx (1867: 125), just as well as was Menger ([1871] 1976: 272-273). In adequacy with the objective approach of his classical tutors, mostly Ricardo, Marx deeply grounds the economic character of the economic good in its readiness to be useful and used. The wording of Marx in this passage is significant of his idea, as he starts with a "thing", which is to become an economic good and then a commodity. In the transformation of its nature the object acquires value from different sources and grounds. It is good, then useful, then valued and later-on exchanged.

It is doubtless that Marx is perfectly aware of the importance or the impact of psychological factors upon the perception of utility and therefore use-value as he links them, when he affirms from the very start of his *exposé* that "the nature of such [human] wants [...] makes no difference" (1867: 26) and he subsequently relies on Barbon (1696:2-3) quoting him that "the greatest number (of things) have their value from supplying the wants of the mind". Marx here solidly grounds utility, upon which he builds use-value, into the individual human – subjective – realm. Nevertheless it is worth pointing out that he attributes utility to the "physical properties of the commodity" as "it [utility] has no existence apart from the commodity" (*ibid.*). What appears to be implicitly in motion here is the degree at which human (conscious) knowledge is able to

[7] It may be of great significance to remind the reader that Schumpeter (1954: 596), who is so far undoubtedly the highest authority in the study of the history of economic thought, considers Marx as "the most metaphysical of all theorists".

[8] The original text being: "on ne peut entendre par là que la bonté d'un objet relativement à nos jouissances. Quoique cette bonté soit relative à nous, nous avons cependant en vue, en y appliquant le mot de *valeur*, une qualité réelle, intrinsèque à l'objet et par laquelle il est propre à notre usage" Turgot ([1769] 1997: 281-282).

unveil the objective qualities of a thing to the individual mind, which in turn will focus its desires upon the utility, through its usefulness, of the thing. This is the meaning of his statement taking up on Barbon's example of the magnet – the "loadstone" – that "the property which the magnet possesses of attracting iron, became of use only after by means of that property the polarity of the magnet had been discovered" (1867: 52, see endnote 3). It follows that logically if not chronologically, an objective property of a thing being readily put in use is a prerequisite to being useful and hence an utility with a use-value (which is here to be put in parallel with Turgot's "goodness" of things that are to become of use for men). When it comes to use-value, Marx states the logical supremacy of objective value over subjective perception of usefulness although he allows for an individual degree of will and volition upon the objectively ready-to-use thing. Precisely because such a predominance of the objective upon the subjective is not clearly visible in the exchange dimension of value which is in the realm of social interactions he focuses upon the essence or substance of value[9]. Here clearly appears the Aristotelian inquiry of fairness in trade relations among individuals and classes of individuals. This on the other hand is of an essential or substantial dimension as well as it is aimed at unveiling that which is "equal", this common "something" to all commodities, that is things in exchange, "characterised by a total abstraction from use value" (Marx [1867: 27]). And as use-values are essentially bound to quality of commodities, he argues "as exchange values they are merely different quantities, and consequently do not contain an atom of use value" (*ibid.*). This position is further developed in the critique Marx addresses to Condillac's justification of exchange (Marx [1867: 110-111]) where he sharply puts up the distinction of use-value and exchange-value in the matter of commerce. Unsatisfied with the relativity of use-value, Marx establishes exchange-value as a phenomenal[10] form of what is "something contained in it [the commodity], yet distinguishable from it" (*op.cit:* 27). That is the substance of value in the social world. Therefore usefulness or

[9] The reader shall be reminded that Marx by putting the emphasis of his work on exchange-value calls it simply value, while use-value is always precisely mentioned as such. His insistence on exchange-value shall not be neglected, as he states: "our investigation will show that exchange value is the *only form* in which the *value* of commodities can manifest itself or be expressed" (1867: 28, emphasis added). This however shall not lead to confusion between the essential dimension of value as *quantum* of abstract labour and the peculiar form of value, which exchange-value is in Marx's thought.

[10] The word "phenomenal" is not neutral. From ancient Greek φαινόμενον (phainomenon) and meaning "thing appearing to view" or "that which shows itself in the light of the day". In Kant's words it is that which being of an inaccessible to men reality, is however perceived through the framework of human understanding. More commonly it is what appears and manifests itself to conscience. Therefore one cannot think that Marx ignores here the importance of the subject and of subjective perception.

utility appears to be the entry gate of value in the economic inquiry, a *sine qua non* condition, but a condition still, not value itself. It rather justifies the volition of an object by a subject and therefore the expense of efforts input into its production. It is in his words the one and only common characteristic to all things, labour power – not concrete, but abstract and "homogeneous" – which makes values out of things. While stating that "the residue of these things [...] consists of the same unsubstantial reality [...] a mere congelation of homogeneous human labour, of labour power expended without regard to the mode of its expenditure"(*ibid.*) he points out the existence of an abstract common source of value to things once stripped from their use-value entering the exchange process, as this "common substance that manifests itself in the exchange value of commodities, whenever they are exchanged, is their value". But be the thing useless, "nothing can have value, without being the object of utility [...] so is the labour contained in it" (1867: 29). Value therefore applies only to things involved in social exchange on the basis of their capacity to be use-values and requiring labour efforts precisely for this. It is the conjunction of labour and utility that attributes value to objects. It is possible to point out a salient asymmetry between utility and labour in explaining value. Utility justifies labour as much as labour sublimates utility. But only a thing produced for the purpose and put into exchange is a commodity and hence value.

This dichotomy he establishes between use- and exchange-value puts forward a distinction between concrete and abstract labour[11]. And when it comes to use-value, work is not the only factor of value creation. Nature's input is just as much at stake, as is human effort. By doing so, Marx imprisons himself in the Judaeo-Christian vision – which is itself derived from ancient Greek objective philosophy – that man is unable of sheer creation, understand "genesis", but only of modifications of matter, which is objective and independent in its essence and existence. The "help of man [to the work of Nature]"[12] can only be that of "joining together and separating" the matter. This however is only true for use-value which according to Marx's analysis is therefore to be put in the objective realm.

Not quite the same is his treatment of exchange-value, or the social form of value. The produce of men's labour is "with reference to use value, the labour contained in a commodity

[11] Engels makes this distinction clearer in an appendix to footnote 16 page 53 to the first chapter of the 1887 English edition, where uses the subtleties of the English language, between qualitative "work" as a source of use-value and quantitative "labour" as source for exchange-value, just as much as Marx uses the distinction between "value" and "riches" (use-value).

[12] Marx (*op. cit.*: 30), see also his footnote 13 of the first English edition of 1887, where he relies on Verri (1773).

counts only qualitatively, with reference to value it counts only quantitatively" (Marx [1867: 31]), and thus labour has a twofold character as mentioned above "work" applies to the qualitative use-value, while labour is the quantitative dimension of exchange-value, or thereafter the magnitude of this peculiar form of value that drives the social world. This distinction between "work" and "labour" provides ground for a distinction between wealth, which "unit being a simple commodity" and the magnitude of value, which is the time of abstract simple labour power incorporated, "congealed" in the commodity. Human productive effort is the substance of value and the time of useful labour that is spent for it is the magnitude of value.

Hence exchange-value has a purely extrinsic nature of a social reality and is merely a ratio or a relative proportion to another commodity. The fact that Marx defines a commodity as a useful thing being a product of labour power meant to be exchanged for commodities to be consumed, allows him to distinguish between the relative and equivalent form of value. The simplest expression of (exchange) value is that through which to the relative form of value of a commodity produced with the purpose of exchange will be corresponding the equivalent form of value of another commodity based on its use-value.

b. Menger's logical pattern or value by experience

Menger's analysis of value is based on scarcity, although he never uses the word itself. He rather talks of "insufficient quantity". So scarcity shall not be understood in terms of presence or absence of cost and efforts. And despite his shared fatherhood of the marginal analysis, he does not coin the concept of "marginal utility", von Wieser does so. Menger – according to Hayek (1976: 18) – uses the rather cumbersome notion of the "importance which concrete goods or quantities of goods receive for us from the fact that we are conscious of being dependent on our disposal over them for the satisfaction of our wants". The hoped-for satisfaction of those wants or desires is the driving force of importance or value that things acquire in men's eyes. That is from the start Menger ([1871] 1976: 46) tries to "reduce the complex phenomena of human economic activity to the simplest elements that can still be subjected to accurate observation" and illustrates his essentialist approach. In line with this requirement and quite similarly to Marx he establishes a cause-consequence string of relations from the useful thing to a good, which becomes an economic good and therefore value, through which a measure of economic exchange establishes prices (*op.cit*: 48). This however, he argues is beyond the will of a single person, but is a theory concerned "with the *conditions* under which men engage in provident activity directed to the satisfaction of their needs". That is the good-character is "merely a relationship between certain things and men" (*op.cit*: 52, footnote 4), as goods are useful things which are already capable of satisfying needs and are purposefully directed to the satisfaction of those needs. But instead of putting things on the same plan level, Menger before even discussing value establishes a relationship between goods. And unlike Marx's relation of exchange-value between commodities, that is a horizontal relation, Menger develops a vertical type of relation, on which is to be built the *imputation* concept of the Austrian School[13].

Both Marx and Menger discuss that which is hidden behind the exchange of commodities and what is tacit in the course of trade. As Marx (1867: 32) puts it the inquiry starts "from exchange value, or the exchange relation of commodities, in order to get at the value that lies hidden behind it". The same appears in Menger's terms through the idea that by "active commerce and [in] a highly developed economy, almost every product comes into existence under the tacit, and as a rule quite unconscious, supposition of the producer that other persons, linked to him by trade, will provide the complementary goods at the right time" ([1871] 1976: 63). But while the former sees that exchange as functioning mechanically, in a commodities for commodities fashion – or the social relation of commodities – and looks for what is their common characteristic in the act of productive effort, the later undoubtedly grounds "the great causal interconnection between goods" directly dependant on purposeful individual human action aiming at satisfaction. The principle according to which "the existence of human needs capable of satisfaction is a prerequisite of goods-character in all cases, [logically leads to] the principle that the goods-character of things is immediately lost upon the disappearance of the needs they previously served to satisfy [which] is, at the same time, also proven" (*op.cit*: 64). This sounds very close to Marx emphasis upon utility as a prerequisite for value. However Menger creates an *organic* relation between goods, by establishing links between goods of different orders and he directs them towards the ultimate aim of satisfaction and utility, while Marx puts goods in a *mechanical* relation as they are seen to have a commodity nature only by virtue of exchange with no consideration of exchange itself. This is moreover emphasised by the discussion Menger develops in respect of the notion of time, which is to be distinguished from Marx's duration or *quantum* of labour effort. And as an answer to Marx's analysis, Menger ([1871] 1976: 101) does – although he never quotes or even mentions Marx in his *magnum opus* – state that the

[13] See Wieser (1891: 110) for a more detailed *exposé* of the concept.

"economic character of a good cannot [...] be the fact [...] that some goods are products of labour while others are given us by nature without labour". And "hence labour expended in the production of a good cannot be the criterion of economic character" this quality of a good is neither to be found in the act of exchange but precisely in the relationship that appears between the good and the need or to put it differently between the available quantities and the experienced "requirements". As he further on ([1871] 1976: 102) puts it: "there can be only two kinds of reasons why a non-economic good becomes an economic good: an increase in human requirements or a diminution of the available quantity". And only those economic goods which are subject to the quantitative relationship with human requirements can attain the significance of value[14]. Utility is the prerequisite for a good-character of both economic and non-economic goods but only the former do have use-value. As such an utility is rather an objective element, as it is "the capacity of a thing to serve for the satisfaction of human needs" (*op.cit*: 119), but it undergoes through a transformation in the subject's eyes that may eventually lead the thing to use-value under the above conditions. Therefore it may be argued that in Menger's terms *utility* is to be seen as a synonym to Turgot's *bonté*.

Here satisfaction of needs is the objective root of use-value although the meaning of utility has evolved ever since. And this objective root of economic character of use-valued goods is further exposed with Menger's idea of "the phenomenon of *imaginary* value" ([1871] 1976: 120). Albeit he explicitly states that value is a judgement and "is entirely *subjective* in nature" this judgement is applicable only to those goods subject to knowledge by individuals that as goods they are capable of satisfying needs.

Thus for both Menger and Marx the entry gate of value is through the objective capacity of goods to meet human needs. A thing cannot be a good without goodness.

IV. The question of measure or the magnitude of value

While on the whole Marx and Menger have a very close interpretation of the essence of value, both by accepting the subjective dimension of individual volition and satisfaction of desires and wants on one hand and by emphasising on the quantitative objective dimension of scarcity and effort it is with the discussion of the magnitude of value that they begin to significantly diverge from each other.

[14] See how explicit this point is made by Menger ([1871] 1976: 115, footnote 2).

a. the quest for an absolute measure

Marx is undoubtedly in search of a universal invariant measure of value. As Schumpeter (1954: 591) points it out this aim is to “provide a stable yardstick with which to measure the variations in the relative prices of all others by imagining a commodity of theoretically invariant value in which the embodied quantity of labour is always the same”. Therefore an absolute expression of the value of all commodities can be reached. And Schumpeter (*ibid:* 597) makes his point absolutely explicit while stating that “Marx actually went through with the idea of an absolute value of things” and that he is the only author to do so. Moreover in his judgement of Marx’s heritage, Schumpeter states that this absolute value of things “may be sacred truth in some extra-empirical realm of Platonic ideas, where the ‘essences’ of things are exhibited” (*ibid*: 598).

Magnitude of value for Marx can be applied only to commodities or economic goods which congeal abstract labour power in the prospect of exchange. Only interaction among individuals needs measurement and therefore only exchange-value needs magnitude. While Hong (2000: 89) only briefly discusses this point in his comparative study, some further attention may be brought to this question precisely because Marx bases social interactions on value. As the *quantum* of labour is the explanatory factor of value in the social world it cannot be applied in the same manner to use-value which in turn cannot be quantified. The reason for this is the distinction made between “work” as a specific concrete productive effort of use-value and “labour” as an abstract socially necessary labour time for the produce of exchange-values. It is precisely this twofold character of labour that explains the possible divergences between use- and exchange-values and the “antagonistic movement” as he names it (Marx [1867: 32]). Changes in quantities of productive power as a more or less abundant source for products, or put differently changes in productiveness do not affect the “labour represented by value”, as “the same [abstract socially necessary] labour, exercised during equal periods of time, always yields equal amounts of [exchange] value”. This can be seen as the heart of Marx theory of value, in the general sense of the word, as an abstract form common to use- and exchange-value. An increase of wealth which in his opinion is merely dependent on use-values is here compatible with a decrease in exchange-value. Moreover, his understanding of wealth has not only an objective component, but also has a utilitarian dimension, as he states that “with two coats two men can be clothed, with one coat only one man”. But while wealth can increase, the total value of use-values would decrease if a change in productive power "shortens" the total labour time needed. That is if a tailor has to work for an hour to produce a coat, the value of a coat will not change if two tailors work one hour each and thus provide two coats, but its value will necessarily decrease with the change of productive power fruitfulness – understand source of use-value – if the tailoring of a coat takes henceforth less than an hour. Productiveness applies only to concrete forms of labour power not to abstract labour. Changes in abstract labour force are not microscopic or microeconomic; they are due to a modification in the whole structure of the production process. That is to say that the exchange-value grounded on the abstract socially necessary labour force hour will change as on average the society demands and permits for such a production effort with a given technology that is to be socially necessary. Put differently the whole of the "infrastructure" has to change in order to permit a change in value.

b. the importance of satisfaction

Menger on the other hand questions the "magnitude of importance of different satisfactions" ([1871] 1976: 122) which in Hayek's words is "equal to the importance which attached to the least important satisfaction is secured by a single unit of the available quantity of the commodity" ([1871] 1976: 18, foreword). Here magnitude is linked to marginal satisfaction from the very start of the analysis and finally linked to goods of the same order. Unlike Marx's search for an absolute value unit measurement of value with Menger is an input in the justification of productive action of a use-thing to become commodity and satisfy needs. That is magnitude of value precedes and conditions measurement through exchange, while with Marx magnitude of value is derived from the *quantum* of labour force and determines exchange. Menger insists in linking the commensurability of value to the satisfaction of needs as he reminds his reader that "in the value of goods [...] we always encounter merely the significance we assign to the satisfaction of our needs" ([1871] 1976: 121). This significance gives rise to a classification by "degree (duration and intensity) of pleasure" (*ibid*: 123) or the establishment of preference scale through which magnitudes of importance of different satisfactions and different available goods potentially fit for those satisfactions happen to appear. As this grid is related to the individual and the circumstances, then "the *measure* of value is entirely subjective in nature" (*ibid*: 146). Through this point Menger explicitly rejects the labour-theory of value stating that "there is no necessary and direct connection between the value of a good and whether, or in what quantities, labour and other goods of higher order were applied to its production" (*ibid.*). Moreover, Menger introduces in the analysis the importance of knowledge and error as he argues that all individuals are prone to error, which is an "inseparable from all human knowledge" and that "fluctuations in the values of goods that are caused simply by *changes in the knowledge* men have of the importance of goods for their lives and welfare" (*ibid*: 148). This also applies to goods of higher order as Menger's analysis is conducted in such a way as to reveal the concept of value in the whole economic system from the stages of production, trough exchange and to consumption and satisfaction of needs.

V. Theories of money and exchangeability

Both Marx and Menger rely on a historical or evolutionary understanding of the emergence of money through the exchange process. The division of labour and the sophistication of production efforts provide a solid ground for a society's economy based on exchange and therefore call for a specific exchange tool, namely money. Nevertheless, their understanding of money being genetically linked to their respective value theories, so that money has a very different meaning. Behind the common commodity-based monetary tool appear their fundamental discrepancies.

a. the direct universal equivalent form

For Marx (1867: 33) commodities have a common "dazzling money-form" of value. It is the very "completely developed" form of the "equivalent form" (*ibid*: 38), or as he puts it differently (page 40) "the equivalent form of commodities [...] attains its full perfection in money".

The identification of money in Marx's analysis is inseparable from the functioning of the society. The "universal equivalent form" has to be "excluded from the rest of all commodities as their equivalent, and that by their own act" and then consequently is a bodily form of a commodity which is "socially identified" as the equivalent form and therefore "serves as money" (Marx [1867: 45]). This process of identification is time-consuming as Marx makes it clear when he states that "gold is now money with reference to all other commodities only because it was previously [...] a simple commodity" (*ibid.*). Here is a genuinely endogenous process of emergence of money out from the world of commodities. If precisely gold and silver are to endeavour the task of a universal equivalent form of value, it is because "by Nature" those metals' physical properties are particularly fit for the functions of money (*ibid*: 61). It points out at the notion of "exchangeability" which tends to make its presence palpable all through Marx's discussion at a rather secondary plan. Still he explicitly discusses it while attacking Proudhon (*ibid*: 55, endnote 26), as he reviews the character of direct and universal exchangeability and its opposite pole the absence of direct exchangeability as polar cases of the character of commodities. And the fact that commodity, namely gold (and silver) which acquires this character of direct and universal exchangeability, becomes the bearer of the universal equivalent form "by social custom" is a social progress.

As Hein (2006: 114) claims it Marx's category of value "necessary includes the category of money and that [his] theory of value has to include a theory of money as well" and that is clearly stated above. But when Hein argues that "from this it follows that Marx's theory of value cannot be seen as a 'labour embodied theory of value' and his theory of money need not be interpreted as a 'commodity theory of money' [and that] instead, Marx's theory of value can be interpreted as a 'monetary theory of value' and his theory of money as a 'token' or 'credit' theory of money" some further precisions are necessary. The social and abstract character of labour force as essence of value means that commodities are exchangeable precisely because of the "mutually exchangeability of all kinds of useful private labour [as] an established social act" where the "equalisation of all kinds of labour can be the result only of an abstraction from their inequalities, or of reducing them to their common denominator, viz. expenditure of human labour power or human labour power in the abstract" (Marx [1867: 47]). Only as products of exchangeable congealed labour power can commodities be exchangeable as well. And the only Foley's (1982: 39) statement that "the value of money expresses the social equivalence of money and labour time which is inherent in commodity production, and would be meaningfully defined even if money were an abstract unit of account" makes full sense as the character of direct exchangeability is "impressed" upon the commodity which bears the function of money. Only from this perspective it is possible to accept that Marx departs from "commodity theory of money".

b. the idea of marketability

Menger's approach to money is quite similar as he as well insists on the notion of exchangeability which he names "saleableness (*Absatzfähigkeit*)" (Menger [1892b: 242]) or "marketability" (Menger [1871] 1976: 241 and following) which is limited to areas, people, quantities and time periods, but moreover commodities are limited in their marketability by their degree of readiness to be sold – and accepted – in exchange. This gives ground for a twofold concern. First is the ease with which a commodity can be put in exchange; that is which of all commodities is the most readily accepted in exchanges with no regard for the previous limitations. And second which commodity maintains its "*pouvoir d'échange*" (Menger [1892a] 2005: 246) in respect to any other commodities. This commodity which *saleableness* or *marketability* remains as constant as possible or say differently its readiness to be reintroduced in the market process without specific consideration for the area or the people involved, the quantities at stake and the time period, and without any sharp and dramatic fluctuations in its exchange ratio "naturally" acquires or endeavours the monetary functions. As Menger ([1871] 1976: 254) points out "gold nuggets can pass through any number of hands without any decrease whatsoever in marketability" and that combined with the statement that "*the theory of money necessarily presupposes a theory of the saleableness of goods*" (Menger [1891b: 243], emphasis in the original) by no means says that logically speaking money is gold, but that technologically speaking gold is money.

Thus Menger clearly grounds the emergence and attribution of monetary functions to the most saleable of goods. There are two processes to be distinguished. One is the genesis of money, which is the institutional dimension of the market process organisation. That is to say that money appears as a market or exchange tool used by participants in indirect exchange practices. The other is the attribution of the monetary function or its identification with a given economic good. This distinction is illustrated by the historically observed separation between the unit of account – in its ideal form – and the medium of exchange and store of value – in its concrete form[15]. But what should not be lost out of sight is that logically speaking gold – and precious metals in general – are used for monetary purposes for mere technological reasons.

Mengerian money is mainly an institution which harbours in precious metals. Marx's money is a supporting tool for objective value. Although Marx clearly states that the monetary material – gold – has value precisely because it is a commodity in the first place, so that his analysis in terms of abstract socially necessary labour power applies to it, the institutional

[15] It is implicitly stated here that there are only three monetary functions: medium of exchange, store of value and unit of account. The first and the second are inseparable; the third one may accidentally be distinct. This eventual separation between supports of monetary functions gives place to two different monetary orders or systems: the divided of differentiated one with an ideal unit of account and a real medium of exchange, and the syncretic or monolithic, in which ideal and real money are indistinguishable. This case is discussed by Menger ([1871] 1976: 277-278). Fantacci (2005; 2008) provides an in-depth historical analysis of the issue. Also see Nenovsky (2007) for a more detailed discussion.

importance of money *per se* does not appear with the same acuity as with Menger. Both of them however deploy great efforts in distinguishing money from the mass of all other commodities[16].

VI. The understanding of prices

The notions of value and prices easily overlap as the main point resides in the question whether in respect to value prices exist independently from the existence of money. An extra interrogation arises from the question whether in a monetary world prices are distinct from the value of money in terms of commodities. A negative answer to both those inquiries would participate in rejecting the dichotomy approach and the neutrality of money.

Marx's analysis does not provide for a clear *distinctio* of value and prices, as prices are values of goods and money, put aside the idea that value emerges out of labour, which augmented by over-value results in price. As he explicitly puts it "the value, or in other words, the quantity of human labour contained in a ton of iron, is expressed in imagination by such a quantity of the money-commodity as contains the same amount of labour as the iron" (Marx [1867: 66-67]). "The elementary expression of the relative value of a single commodity [...] in terms of the commodity, such as gold, that plays the part of money, is the price form of that commodity" (*ibid*: 46). Only the existence of commodity-based money makes way to the existence and intelligibleness of price.

Marx (1867: 70) cannot make it clearer when saying that "price, like relative value in general, expresses the value of a commodity *(e.g.*, a ton of iron), by stating that a given quantity of the equivalent *(e.g.*, an ounce of gold), is directly exchangeable for iron". Moreover he clearly states that money performs two distinct functions in respect to value and to prices. As the measure of value dimension of money merely "serves to convert the values of all the manifold commodities into prices", while the standard of price dimension of money measure the quantities of gold[17]. In his 1859 *Contribution to the Critique of Political Economy*, Marx states that "the exchange-value of commodities thus expressed in the form of universal equivalence and simultaneously as the degree of this equivalence in terms of a specific commodity, that is a single equation in which

[16] In the Austrian literature - Demostenov is a clear example of this – one may see a statement that money has to be viewed as a separate analytical category along with consumption and production goods. In political science on the other hand, building on Marx's distinction of infra- and superstructure, money is qualified as a fundamental universal institutional feature along citizenship, see Billaudot (2006: 16).

[17] The reader could easily compare this statement to Mises (1971 [1912]: 101).

commodities are compared with a specific commodity, constitutes *price*. Price is the converted form in which the exchange-value of commodities *appears* within the circulation process". Price is therefore nothing else that an informational signal expressed in a *numéraire* which is itself a commodity bearing the function of money by means of social recognition and convention. Prices are subject to the law of supply and demand and they are defined by competition. Value, or to be more precise, exchange-value therefore as affected by the market feedback by prices and discrepancies between the labour time magnitude of value and the price-induced expression of exchange-value are observed. Bound by the objective dimension of his value theory Marx is in an absolute incapacity to integrate market-induced variations of evaluation.

Menger, on the other hand, is extracting his price theory from the subjective ground of value. He explicitly states that "misconception regarding value is still shared by those authors who see the inner causes of the movement of prices in the *quantum of exchange value*, inherent either in goods or in money" (Menger [1892a] 2005: 246, emphasis in the original). And instead of dwelling in the essence of value while dealing with prices, he focuses on the "rather *outer relations*" (*ibid.*) that work on the formation of prices. Moreover, freed from the objective dimension of value he is able to consider the movements in the value of money, or the currency, and put forward the importance of the fact that even if the "valuation of goods in money greatly resembles the measuring of their value against the value of money" in order to evaluate the goods exchanged it is "important to *know current prices* of [...] items on the market at the very moment [of] trade" (*ibid*: 247, emphasis in the original). This is in turn dependent on market conditions. And just as Marx sees prices subject to supply and demand, Menger acknowledges the role of market forces and reviews the formation of prices under different market situations. His consideration of price is intimately related to the above discussed concept of exchangeability or *sealableness*. For instance the notion of "*economic* prices" reflects the "the greater or less faculty with which they [commodities] may be disposed of at prices corresponding to the general economic situation", that is put aside cases of "distress or accident", "error, ignorance, caprice" or part of available supply being withheld (Menger [1892b: 245]).

But prices are for Menger ([1871] 1976: 191) nothing else than "the quantities of goods actually exchanged" or "the incidental manifestations of [economic] activities, symptoms of an economic equilibrium between the economies of individuals". And in the over-exposition of prices to market participants' cognition Menger (*ibid*: 192) sees the reason for the "error of regarding the quantities of goods in an exchange as *equivalents*". For him prices exist only in the course of exchange relations and as such they are objects of valuation.

Moreover his analysis is much deeper and more precise as it provides for a proper explanation of why prices of life-dependent goods – which are therefore of a highest degree of value – are quite often much lower than prices of futile or superfluous goods meant to satisfy only superficial pleasures. For prices are not values, nor expression of values. And this holds true even for the more interactional type of value, namely the objective (or inter-subjective) exchange-value.

VII. Further considerations

Both Marx and Menger follow similar paths as they treat the relations between value, prices and money. They strive to inquire behind the salient and the obvious when presenting a comprehensive description and analysis of economic activity. Thus, Marx establishes a social relation between commodities as he grounds his understanding of value on socially justified labour. The justification of this labour is to be found in the goodness of the economic thing and the social benefit for the community from the labour effort spent in its production. Menger as well focuses on the satisfaction of needs while establishing value and justifying the production effort. For both of them explicitly man is the source of value. In their approach to value there is no room for doubt of their awareness that it is a human feature[18].

But while the former concentrates his efforts on the social dimension of the individual by levelling all particular work efforts in an abstract labour power, the later uses the particular individual's wants and desires as a driving explanatory force in his analysis. Reassessing the value matrix shown above exhibits further the differences between them. For Marx the separation line between individual and society is precisely between the use- and the exchange-value of a commodity as use-value is a product of a particular work and does not enter the social realm because it is not meant to be given away in exchange. The subjective part of value is merely a matter of individual taste and utility is only a necessary condition so that the subjective

[18] Both Marx and Menger quote Galiani's (1751) *Della Moneta*, so they necessarily know the famous passage "Il prezzo delle cose, cioè à dire la proporzione loro a nostro bisogno non ha ancora misura fissa. Forse si troverà. Io per me credo che ella sia l'uomo istesso (the price of things, that is to say their proportion to our need has not a fixed measure yet. Perhaps it would be found. I personally believe that it is man himself)", to be found in Book I, Chapter 2, p. 162, which Turgot translates by "la seule commune mesure de toutes les valeurs est l'homme (man is the only common measure of all values)".

exchange-value, which can be seen as the act of sacrifice, is a matter of personal production capacities, a coefficient of the average necessary labour effort for the production of the commodity at stake. Hence necessity is general, error of valuation is particular.

With Menger on the other hand the separation line is between the subjective and the objective value. Personal valuations are meant to be compared and confronted both on the *infra*-individual and *inter*-individual level. Preferences in the search of satisfaction rather than ratios of total available quantities of commodities are the driving force of value. Necessity with him has a deeply particular individual dimension, while error is a general, say systemic, feature.

By doing so, Marx establishes a quantitative equilibrium model of exchange-values which translate in prices with the “universal equivalent”, while Menger builds a qualitative equilibrium model of monetary prices which translate subjective valuations.

Borrowing on Schumpeter’s distinction between “Metallism” and “Cartalism”[19] it can be argued that both Marx and Menger are practical metallists, as both they fit in Schumpeter’s definition stating that “a principle of monetary policy, namely, the principle that the monetary unit ‘should’ be kept firmly linked to, and freely interchangeable with a given quantity of some commodity” (Schumpeter [1954] 1987: 275). Therefore they appear as advocates of monetary neutrality on moral basis. Put differently from ethical point of view changes of purchasing power of money are to be endogenous. But while Marx’s metallism reflects objective values of labour congealed in the specific commodity, Menger’s metallism merely sees continuous subjective appreciations of the monetary commodity.

The emphasis they both put on value rather than prices *per se* and their common consideration of money as a tool which endogenously by experience impresses or harbours itself in the monetary commodity and uses its value as a support contributes to sustain the hypothesis expressed by Hong (2000: 102) of the existence of “a German tradition embracing the Marxian, the Austrian and the Historical School”. This however shall be the object of further research.

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[19] Schumpeter himself, as he indicates it in his *History*, ([1954] 1987: 275, footnote 2), borrows the terms from Georg Knapp’s ([1905] 1924: 143 and following) *The State Theory of Money*, where the term “cartalism” appears as “chartalism”.

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