

Is Cartelier's Monetary Approach a Convincing Alternative to the Labour Theory of Value? A Comment

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1. Introduction

Jean Cartelier's paper follows in the steps of his long-standing previous work (e.g. Cartelier, 1991; Benetti and Cartelier, 1999) of advancing a monetary approach as an alternative to the theory of value. This approach originated with what was then branded as the 'Rubin School' (e.g. Cartelier, 1976; Deleplace, 1979; Benetti and Cartelier, 1980), that offered a monetary interpretation of Marx's theory of value (more on this issue below). This approach began as an internal criticism of Marx's theory of value and an attempt to reinstate it in more consistent terms; that is, to offer a better theory of value based on money. It evolved from a completely different approach from that of Marx's (owing more to Schumpeter and, probably, to Keynes) that rejected altogether the concept of value. This paper belongs to the second breed, that is, it rejects completely the theory of value and proposes a fully-blown monetary approach.

My comment offers a critique of Cartelier's monetary approach and a defence of the Marxist labour theory of value. The next section briefly presents and criticises the 'Rubin School', the ancestor of the monetary approach, as many of the problems of the latter existed already in the former. The third section analyses and criticises Cartelier's monetary approach as such. Finally, the last section concludes.

2. The 'Rubin School' and its Shortcomings

In the 1970s, Marxist economic analysis came under fire from the then emerging neo-Ricardian tradition propagated by Steedman (1977). The latter was based on the seminal work by Sraffa (1960), whose aim, however, was not a critique of Marxist political economy, but a critique of the internal consistency of general equilibrium neoclassical economics. The neo-Ricardian tradition argued that you can derive a theory of prices without a theory of (labour) values by simply studying the physical and technical inputs of production (in practical terms, through input-output analysis). This argument discarded not only the Marxist, but also the Ricardian, conception that prices (in the ultimate form as monetary prices) are determined by labour values (that is the expenditure of labour in production – in practical terms, labour-time). Thus, for neo-Ricardians, labour value is redundant. It can only be useful as a side dish on the menu, as an explanation of the exploitation of labour by capital.

The neo-Ricardian challenge was vigorously repelled by the Marxist tradition in the ensuing Value Debate of the 1970s and 1980s (see Fine, 1986). It was convincingly shown that neo-Ricardianism is a technicist approach that cannot grasp the social dimension of capitalism (a central element in both classical – primarily Ricardian – and Marxist political economy). Moreover, the Marxist reply proved both the internal consistency of Marx's analysis and its explanatory superiority. It also showed that, while the Marxian labour theory

of value (LTV) was close to the Ricardian one (in defining values as expenditure of labour in production), it differed radically in how these labour values are defined. Thus, Ricardo's LTV was based on embodied labour (a conception of labour focusing on its technical characteristics), whereas Marx's LTV was based on abstract labour (i.e., a conception of labour focusing not only on its technical but also on its social characteristics).

The so-called 'Rubin School' (e.g. Cartelier, 1976), was part of this reaction to neo-Ricardian technicism, but chose a path that subsequently led it astray (see Mavroudeas, 2004; 2012). It attempted to elaborate an abstract labour value theory by emphasising the social dimension. However, it erroneously posited money as the immediate (i.e., without the mediation of intermediate stages) incarnation of the social dimension. Thus, value was totally divorced from the sphere of production and was relegated to the sphere of circulation: value is created in the exchange of commodities for money. It should be noted that the Marxian transformation process of (labour) values to (ultimately monetary) prices is much more sophisticated and, by the way, more realistic. For Marxist economic analysis, values are created in the sphere of production (through a normalisation process involving both technical and social characteristics) as labour-time magnitudes. They are then transformed in the sphere of circulation, taking into account the long-run dimensions of intra-capitalist competition (i.e., productive structure expressed in differing organic compositions of capital), to prices of production. And, finally, they are transformed again in the sphere of circulation, also taking into account the short-run dimension (i.e., the fluctuations of supply and demand) to market prices (which are the prices observed in practice). The latter are, in a fully-developed capitalist economy (in which commodification is dominant and, thus, monetisation is also dominant as opposed to barter), monetary prices. However, the formation of values does not require, in its essence, the intermediation of money – but can exist in the form of barter (e.g. in the primitive steps of capitalism). In this sense, Marx (in *Capital Volume I*) employs value theory in order to analyse production, while abstracting from exchange and distribution. Of course, and this was forcefully explained by Marx, a fully-developed capitalist economy is a monetary economy (i.e., not only is commodification dominant, but also commodity exchange is mediated by money).

The 'Rubin school' approach of Benetti and Cartelier failed to acknowledge this sophisticated and layered process of determination. By directly equating value with money it ended up in 'circulationism' (that is, the undermining of the primacy of the sphere of production within the total circuit of capital). Hence, they ended up arguing that values and prices are 'incommensurable' factors, and attacked Marx for attempting to establish equations of the type 'sum of prices equals sum of values'. They additionally accused Marx of adopting a Ricardian theory of labour value. The necessary consequence of the 'Rubin school' perspective is the ultimate abandonment of value theory: (labour) value is discarded and money is posited as the sole concept of the economic analysis of capitalism. Curiously enough, the 'Rubin school' concluded with a very similar result as its neo-Ricardian opponent: value is redundant.

Before closing this section it is necessary to point out that the identification of the 'Rubin school' (and of other similar approaches that also directly equate value with money) with the seminal works of I. I. Rubin (1973; 1978) is totally unwarranted. Rubin disagreed completely with the direct identification of value with money. In many places he affirmed that value can be studied without having previously established money (Rubin, 1978, p. 36). Additionally, he explicitly condemned the view that value is created in circulation, stating that 'abstract labour and value are created or "come about", "become" in the process of direct production ... and are only realised in the process of exchange' (Rubin, 1978, p. 125). Finally,

referring to the quantitative determination of abstract labour, Rubin said that it is a misunderstanding,

‘to admit that the social equalization of labour in the process of exchange is carried out in isolation of dependence on production (for example, the length, intensity, length of training for a given level of qualification, and so on), and thus, the social equalization would lack any regularity since it would be exclusively determined by market spontaneity’ Rubin (1973, p. 154).

3. The Monetary Approach: a Problematic Theory of Wage

Cartelier’s paper follows in the steps of the previous ‘Rubin school’ analysis and it is an exemplary case of his monetary approach. Value analysis is dropped altogether and all major functions of capitalism revolve around money.

Cartelier sets out to confront both mainstream (that is, nowadays, neoclassical) and Marxist theories of wage. He argues that capitalism is based on the wage relationship (i.e., the hiring of workers by capitalists) that exhibits the following ‘stylised facts’:

‘wage-earners voluntarily accept to work under the control of the entrepreneur; they do not decide what, how and how much they have to produce but they comply with entrepreneur’s orders inside the firm as subordinates; outside the firm the wage-earners freely choose how to spend their wages.’

Then he argues that every realistic and consistent wage theory – in accordance with the abovementioned ‘stylised facts’ – should be able to:

(a) define the qualitative differences between a simple market economy (in Marxist terminology, a simple commodity production economy; that is a fictional and historically non-existent type of economy comprised of independent producers that work themselves and do not employ others and exchange their product in the market) and a capitalist economy (again in Marxist terminology, a capitalist commodity production economy; that is one comprised of capitalists and workers where the latter work for the former); and

(b) explain how workers are being exploited in capitalism.

In the following sections we shall tackle firstly, the wage relationship and secondly, the solutions to the two challenges above.

The Wage Relationship

To begin with the wage relationship (later inherited by the Regulation Approach (Aglietta, 1979) is a poor substitute for the Marxian LTV. The stylised facts that Cartelier presents are clearly stated in the relevant chapters of Marx’s *Capital*. Marx was the first to point out the indeterminacy of the employment contract (which is now widely accepted within legal studies). More precisely, he showed that what is sold in the labour market is not the product of labour, but its ability to produce (more specifically the time to use) labour-power. This difference

between labour-power and its output (the application of labour-power in the labour process) is the basis of the indeterminacy of the employment contract. This contract defines very accurately (a) the amount of labour-power sold (that is the time which the worker offers to work for the capitalist and under his direction) and (b) its reward (the wage rate). However, it does not define the result of the application of the ability to work (the labour expended), that is the output of its application in the capitalist production process. The latter depends primarily on the capitalist, who has the managerial prerogative (i.e., the right to direct the labour process and thus the expenditure of labour – types of work, intensity etc.). Thus, the employment contract does not define a series of crucial parameters (e.g. the specific work tasks, the intensity of work) that affect the output of the labour-process.

Following from these considerations, Marx argues that what is being sold in the labour-market is not the actual labour performed (and its output), but a certain length of period of ability to work. Thus, it is not labour that is the commodity sold in the labour-market, but labour-power. The latter is a *sui generis* commodity because it is not produced in a factory, but in the family, outside the control of the capitalist. It has a value (as has every commodity), which is the socially-necessary labour-time required for its reproduction. However, because it is privately reproduced – outside capitalist production *per se* – its socially-necessary labour-time is the time required for the production of the means of consumption necessary for its reproduction (which are bought in the market). As with every commodity, the value of labour-power is reflected in a price, which is the wage. The flow of value created by the application of labour-power (that is the output of the production process) must be higher than its value; or else the capitalist cannot get surplus-value (and thus a profit) and will become bankrupt. The fact that the capitalist has the managerial prerogative enables him to extract this surplus-value (which is an amount of unpaid labour-time). In this manner, Marx combines the analysis of labour-time (paid and unpaid), with the stocks and flows of commodities (means of consumption, output) and their monetary denomination (wages, profits) in a sophisticated, structured and realistic theory of wage (see Mavroudeas, 2001).

Cartelier (1991) rejects this theory by arguing, unconvincingly, that the Marxian theory of exploitation relies on two elements (respectively the labour theory of value and labour-power as a commodity) which are both inconsistent with Marx's commodity theory. He rejects the Marxian labour theory of value on the basis of an erroneous understanding of Marx's value-form analysis and a reiteration of trivial and arguments about values not determining prices which have been answered long ago (see Fine, 1986). And he also rejects the commodity nature of the value of labour-power because it does not satisfy the condition put forth by Marx 'to be privately and independently produced' (see Cartelier, 1991). This thesis falls prey to the typical neoclassical argument (pioneered by Samuelson, 1982) that seeks to invalidate the labour theory of value and dethrone labour from its position as the sole active creator of wealth, and thus reject the notion of exploitation in capitalism. This argument has also been convincingly rejected on both analytical and empirical grounds (see Mavroudeas, 2001) and the special commodity nature of labour-power defended.

Cartelier's monetary approach to the wage relationship is a poor substitute for Marx's analysis. By dropping value theory, he attempts to define the indirect obligation of the labourer to sell his ability to work to the capitalist by his lack of access to the 'minting process' (sic). He argues that when only a fraction of human beings have access to the minting process, this generates a difference of condition. Those people who have no access to the minting process cannot intervene directly in the market, which means that they are not able to run an independent process of specialisation. Hence, they are obliged to work for those having access to the mint in order to acquire money. In formal terms, Cartelier drops labour-time and commodity analysis (see also below, on the issue of Simple and Capitalist

Commodity Production) and goes directly to monetary variables in a very simplistic manner. He argues that economic relations are payments (Cartelier, 2017 p. 31). This is a very problematic definition because it does not take into account the sphere of production and the struggle within it (when even Coase admits that the factory is not a market). Then Cartelier argues that individuals are simply accounts into which payments write down quantities of money (Cartelier, 2017 p. 31). What can differentiate the mass of individuals into different groups (social classes?) is the differential access to the mint: those that have it (the haves) are in a superior position than those that do not (the have-nots). This is also a very weak explanation for the appearance of class diversification in capitalism. It is even weaker than Smith's simplistic reference to the emergence of capitalists as those who, for some mysterious reason, have acquired wealth and thus cease to work and choose to employ others to work for them. Why does a group of people gain preferential access to the mint? Cartelier offers no serious explanation. Is it because of some mysterious inheritance (in which case it is an example of Proudhonist labour-theory-of-property inanity, rightfully ridiculed by Marx)? Or is there some form of institutional prohibition (which Cartelier does not explain)? In any case, these explanations do not fit the empirical data on how capitalism was constructed. It was not through some form of differential access to the mint (after all, it was only the kings that had such access) but through trade and manufacture. Last but not least, what happens when the have-nots work for the haves and themselves become units of account (sic!)? Then is this difference of condition perpetuated? The argument that 'entrepreneurs and independent producers master the two elements of their budgetary constraint, while wage-earners master only their expenditures' (Cartelier, 2017, p. 35) is unrealistic, as it is well known that workers struggle over the wage rate.

In conclusion, Cartelier's monetary approach to the wage relationship cannot explain the way capitalism was born. Moreover, it totally neglects to explain how capitalism functions in the sphere of production. It also fails to offer a convincing theory of wage determination, as it cannot grasp workers' struggle over both pay and working conditions.

Simple and Capitalist Commodity Production

The first challenge (to define the qualitative differences between a simple market economy and a capitalist economy), which is trivial, and obviously solved in Marxist analysis, is necessary because Cartelier lumps together all theories referring to value. Thus, he implicitly equates neoclassical general equilibrium theories (of the Arrow and Debreu type) with Marxist analysis – simply because the former makes some fleeting reference to value. However, this neglects the unbridgeable divide between these two theoretical breeds. Neoclassical general equilibrium theories derive, of course, from the subjective theories of value (that is, theories that identify value with [subjective] utility) from the forefathers of neoclassicism, but have long ago (at least since the completion of their supply and demand analysis) ceased to make any reference to value (see Gramm, 1988). On the contrary, Marxism adheres to the objective theories of value (populated mainly by labour theories of value).

The reason why Cartelier makes this unwarranted bundling together is that they both emphasise the role of commodities in capitalism, and Cartelier's monetary approach downgrades the commodity aspect in favour of the monetary dimension. In this, Cartelier foregoes another major difference between them. For neoclassical general equilibrium theories, commodities do not have any social dimension. They adhere to the theory of productive factors – that is, the capitalist economy consists of very different individual agents (hence there are no social classes, in the economy at least) – that, curiously enough, exhibit the same max-min behaviour (maximising utility and minimising costs). They all produce

and/or possess commodities. Moreover, the production process (to the limited extent that neoclassicism analyses it through microeconomics) is in practice composed, not of people but of commodities (capital, labour, land etc.). For this reason, it has been rightfully criticised by Marxism as a commodity-fetishist economic analysis. On the contrary, Marxism adheres to a theory of productive forces, that is, (a) capitalism consists of competing social classes (fundamentally capital and labour) with different economic behaviours and (b) labour is the sole active creator of wealth. Commodities are the products of labour; that is, they are the outcome of a social process. For this reason, capital and labour have different meanings in Marxism and neoclassicism. From this follows another major difference in their analysis: for Marxism it is labour-time that produces commodities, whereas for neoclassicism commodities are the outcome of the combination of various, equally important, factors. Consequently, for Marxism, commodity analysis must necessarily be geared to the analysis of labour-time (whereas neoclassicism does not pay attention to this). Concluding, lumping together Marxism and neoclassicism as similarly infatuated with the commodity is simplistic and erroneous.

Given the abovementioned considerations, for Marxism, the difference between a fictitious, simple commodity production economy, and a capitalist commodity economy is a non-problem. In the former, the Law of Value (the determination of prices by values) operates unequivocally (i.e., prices coincide with values), whereas in the latter, the operation of the Law of Value has to pass through several mediating stages and exhibits degrees of freedom (i.e., prices fluctuate around values). Notwithstanding, Cartelier foregoes these crucial differences and attempts to define the differences between simple and capitalist commodity production by essentially dropping the commodity dimension and by resorting directly to monetary variables. In this he fails, both to offer a superior alternative to Marxist analysis, and to accurately criticise neoclassical economics.

We referred to Cartelier's problems *vis-à-vis* the Marxist analysis above. However, Cartelier also fails to criticise neoclassicism effectively. His argument – that because neoclassicism accepts that labour is a commodity, then a general equilibrium cannot be obtained – is simply nonsensical. He accuses neoclassicism of inconsistency because it conceives the labour-market as an exchange of equivalents, and the wage as simply another commodity ('human labour or labour-power') whose magnitude is determined like all other commodities. He argues that this cannot explain how a contract among equals results in the hierarchical relationship lucidly presented in Marx's excerpt.

His criticism of neoclassicism is inaccurate and beats around the bush because Cartelier does not grasp correctly how neoclassicism understands the productive factor 'labour' (see sub-section above). In its simplest and more fundamental form, the neoclassical theory of wages states that the price of labour (i.e., the wage rate) is determined by the interaction of demand and supply of labour in the market. Labour demand is determined according to the marginal product of labour. This slopes downward because of the neoclassical assumption of diminishing marginal returns. Perfect competition prevails in the product market and in the labour market. Perfect competition in the product market implies that products are homogeneous and the price of the goods is given for all firms in the market. Perfect competition in the labour market also implies that labour, as well as firms, behave as 'wage-takers'; no one can influence the wage rate. Consequently, the labour supply curve is perfectly elastic. Since the wage rate does not change, the labour supply curve becomes the average cost curve of labour and it coincides with the marginal cost curve of labour. The equilibrium wage rate is set at the point where labour demand equals labour supply. From this it follows that the labour market is an exchange of equivalents; there is no exploitation as each productive factor (capital and labour) is paid according to its contribution. There is no

logical flaw in the neoclassical analysis, unless you question its definitions of capital and labour (and hence its theory of productive factors) and its very stringent and unrealistic assumptions (e.g. perfect competition).

The Issue of Exploitation: Marx or Fleurbaey?

Cartelier's second challenge (to explain how workers are being exploited in capitalism) also emerges because he rejects the Marxist theory of exploitation (that is the theory of surplus-value). This theory is an elaborate construction combining labour-time, commodity and monetary variables. Above all, it has a very good fit in actual reality as it can grasp all the dimensions of the struggle between labour and capital (labour-time and intensity, income distribution etc.).

Cartelier aims to show that capitalism is a system of exploitation of the wage-earners by the entrepreneurs (which are more lax substitutes for workers and capitalists). In order to achieve this, he employs Fleurbaey's peculiar definition of M-exploitation: any human being is exploited when he is being utilised by another human being as a means oriented to the latter's ends. Then he argues that the have-nots (with no access to the mint) are being exploited by the haves and this exploitation takes place in production (as the former have to work under the direction of the latter). Thus, the wage relationship is a form of monetary subordination.

Compared to the supposedly failed Marxian theory of surplus-value, Fleurbaey's M-exploitation is a poor substitute. The first is an economic theory (based on a more general theory of surplus expropriation). The second is a triviality so general that it has no serious explanatory power. M-exploitation can be attributed to almost any field of human interaction (e.g. sentimental issues). Furthermore, it can be used either in a methodologically individualist framework, or in a social class framework. This generality does not increase, but rather decreases, its explanatory ability. Its application in economic relations by the monetary approach to the wage determination is tantamount to this. How can such a theory explain with precision class struggle over pay and working conditions? How can it explain (particularly in its monetary form) intricate matters such as struggle over productive tasks and job descriptions?

4. In Place of Conclusions

We have argued that Cartelier's monetary approach to wage determination is a problematic wage theory. It cannot explain the struggle between labour and capital in the production process on issues like industrial relations, intensity of work, productive tasks and job descriptions, etc. It cannot even satisfactorily account for issues concerning income distribution, as these involve a combination of labour-time, commodity and monetary variables and the monetary approach is only restricted to the last of these.

On top of that, the monetary approach seems to have two other major deficiencies. The first deficiency concerns its methodology. It obviously rejects Marxist dialectical materialism and its elaborate and layered structure of abstraction. However, in place of this accursed 'violence of abstraction' it does not have anything more satisfactory to offer apart from a mere recourse to the phenomenology of monetary circulation.

The second deficiency concerns its theory of money. For a monetary approach it seems to have a very primitive and unsatisfactory theory of money. The equation of the financial system with 'the mint' is, to say the least, very weak. The derivation of money, the

role of the state, forms of money (e.g. world money), capital markets and banking, let alone more complicated issues (for example, credit and fictitious capital) are totally absent.

In toto, Cartelier's recourse to Schumpeter (and Keynes) is an inadequate alternative to Marx.

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