The knots in the threads of theoretical thinking that cause the most confusion are to be found in distribution theory. There is an assumption today among a whole group of writers from various countries about marginal utility theory – I use this term for the theory held by most present-day theoreticians even though it is in frequent use only by a small group of them, on the grounds that it does at least represent the nucleus of this theory. The assumption is that this theory does give an accurate account of the foundations of value and price formation and that it does give an adequate account of the world of consumption goods, but that it fails to cope with the problem of distribution. I shall begin with a discussion of this assumption. As a starting-point it offers the great advantage that it frees the discussion from a large number of methodological and factual preliminaries, because it assumes an understanding and recognition both of the essence of economic theory generally and of the foundations of the marginal utility theory in particular. Taking as an illustration the problem of wages I then want to ask whether in fact the explanatory principle offered by the theory of marginal utility can indeed adequately account for as much of the social process of distribution or income formation as can generally be explained by a purely economic theory.

The assumption I have outlined is often stated baldly as an assertion, though at other times it may just crop up as a vague proposition or lurk at the implicit level. In many writers it appears in connection with other elements, for example with a fundamentally anti-theoretical position or with an overwhelming interest in individual concrete questions. It is to be encountered in its purest form in a recent work by Tugan-Baranovskii, and where I engage in polemic it is this work I shall be focusing on. The choice of this particular writer is justified by the following factors: his reputation and his work, his adoption of a position that evokes a great deal of sympathy at the present time, and the belief he shares with almost all theoreticians that debate can be fruitful. Although he repeatedly refers to a special ‘method’ which he is applying to the problem of distribution while accepting the marginal utility theory for the world of consumption goods, his thesis that it is not value and price laws that are determinate for distribution but social
relations of power involves no special method in the logical sense. While the prevailing theory denies the possibility of wage increases through juridical measures or organised action by the workers, his own theory proves it to be a fact, and his thorough treatment of the subject offers a welcome practical focus for the discussion which I now wish to engage in.\(^3\)

First of all I shall formulate the essence of the marginal utility and marginal productivity theories\(^4\) in their original form and in the form of the so-called equilibrium theory (Pareto) that depends on it, perfects it and generalises it *par excellence*. In principle and on a further level of abstraction that considers only the basic form of the economy, what I shall be saying applies to all imaginable forms of social organisation, but I shall limit myself to the narrower problem of the ‘free market economy’ characterised by private property, etc.

First of all, the pure economic object of knowledge that we abstract from the actual object of the economic process for our purposes is strictly uniform.\(^5\) What we see here is one and only one activity, whose distinguishable elements have an indissoluble connection; they are involved in an exchange that is indissoluble in principle, and it may at the most occasionally be ignored in the individual case in a first approximation. These elements determine one another mutually and unambiguously,\(^6\) and their effect on each other may be described in terms of just one single principle. These elements are quantities of goods or individual psychic\(^7\) amounts of value, and in general it is only a question of expediency whether we lay the emphasis terminologically on one or the other\(^8\) – whether we define our system of elements as a system of quanta of goods or as a system of individual psychic amounts of value; it comes to the same thing in the end. This uniformity does not prevent the theory from resolving a vast number of highly diverse problems. The questioner’s concrete interest constitutes the special problem which the theoretician always seeks to answer in the same way, always pursuing what is ultimately the same line of thought – that would be valid for all other pure economic problems – only each time in another guise.\(^9\) For all its uniformity this theory is susceptible of endless variations through the introduction of particular facts – special conditions – and it is precisely by means of the introduction of particular facts that most of its results of ‘practical’ interest are obtained.

Just as all the quantities of goods and all the valuations that there are at a given time in an economy or in the minds of economic subjects are so to speak adjusted to one another, or suited to one another, or form a system that can be compared with a mechanical, an organised